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THESIS

A STUDY OF THE EFFECTS THAT IMPLEMENTATION
OF BIENNIAL BUDGETING HAS ON THE DEPARTMENT
OF THE NAVY'S POM DEVELOPMENT AND BUDGET
FORMULATION PROCESSES

by

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June 1987

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A Study of the Effects that Implementation of Biennial
Budgeting Has on the Department of the Navy's POM
Development and Budget Formulation Process

by

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Submitted in partial fulfillment of the
requirements for the degree of

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ABSTRACT

A trend towards biennial budgeting at the Federal level may be developing. In 1982, expanded multiyear procurement procedures in the acquisition of major weapons systems were made available to DOD by the Congress and Major Milestone Funding is under discussion. In 1986, DOD became the first Federal agency to submit a biennial budget (for FY 1988 & FY 1989). The purpose of this thesis is to study the effects that these changes are causing on the POM development and budget formulation within the Department of the Navy. The potential benefits that a biennial budget offers to those formulating and executing the budget vary considerably depending upon the specific form that the biennial budget takes. Favorable characteristics from DOD's perspective are identified.

TABLE OF CONTENTS

I.	INTRODUCTION -----	10
	A. OBJECTIVES OF THE RESEARCH -----	10
	B. RESEARCH QUESTIONS -----	12
	C. SCOPE AND LIMITATIONS -----	13
	D. RESEARCH METHODOLOGY -----	14
	E. ORGANIZATION OF THE STUDY -----	14
II.	BACKGROUND -----	17
	A. INTRODUCTION -----	17
	B. ADVANTAGES AND DISADVANTAGES -----	17
	C. CAUSES FOR SUPPORTING A BIENNIAL BUDGET AND OBSTACLES IN ITS IMPLEMENTATION -----	20
	D. ALTERNATIVE BIENNIAL BUDGET PROPOSALS -----	30
III.	THE MOVE TOWARDS A BIENNIAL BUDGET -----	47
	A. INTRODUCTION -----	47
	B. THE ENVIRONMENT -----	47
	C. MULTIYEAR PROCUREMENT AND MAJOR MILESTONE FUNDING -----	50
	D. CONGRESSIONAL INTEREST IN A BIENNIAL BUDGET -----	55
	E. DOD INTEREST IN A BIENNIAL BUDGET -----	59
	F. DON'S FIRST BIENNIAL BUDGET SUBMISSION -----	63
	G. SUMMARY -----	68

IV.	THE EFFECTS OF THE MOVE -----	70
A.	INTRODUCTION -----	70
B.	THE PPBS PROCESS -----	71
C.	CHANGES TO THE PPBS PROCESS -----	76
D.	SUMMARY -----	85
V.	CONCLUSIONS -----	87
	LIST OF REFERENCES -----	93
	INITIAL DISTRIBUTION LIST -----	98

LIST OF TABLES

1.	DATES OF ENACTMENT; DEPARTMENT OF DEFENSE APPROPRIATIONS ACTS FY 1977-FY 1987 -----	. 21
2.	KEY BUDGET DEADLINES -----	28

LIST OF FIGURES

1. Scatter Graph of Budget Authority Requested by the President in Each Session of Congress vs Actual -----	38
2. Bar Graph of Budget Authority Requested by the President in Each Session of Congress vs Actual -----	39
3. Scatter Graph of Double First Session President Budget Request vs Actual President Request -----	40
4. Bar Graph of Double First Session President Budget Request vs Actual President Request -----	41
5. Scatter Graph of BA Requested by the President in First Session of Congress vs Actual President BA Request -----	42
6. Bar Graph of BA Requested by the President in First Session of Congress vs Actual Presidential BA Request -----	43
7. Scatter Graph of BA Requested by the President in Second Session of Congress vs Actual Presidential BA Request -----	44
8. Bar Graph of BA Requested by the President in Second Session of Congress vs Actual Presidential BA Request -----	45
9. Comparative Look at the Annual and the Biennial Budget POM Preparation Cycle -----	80
10. Allocation of the Planning, Programming and Budgeting Phases of PPBS in the Biennial POM Preparation Cycle -----	81

LIST OF ABBREVIATIONS

ASD(C)	--	Assistant Secretary of Defense (Comptroller)
ASN(FM)	--	Assistant Secretary of the Navy (Financial Management)
BA	--	Budget Authority
DOD	--	Department of Defense
DON	--	Department of the Navy
DRB	--	Defense Resources Board
FYDP	--	Five Year Defense Plan
FY	--	Fiscal Year
GRH	--	Gramm-Rudman-Hollings Act
HASC	--	House Armed Services Committee
ILS	--	Integrated Logistics Support
JCS	--	Joint Chiefs of Staff
JPAM	--	Joint Program Assessment Memorandum
JSPD	--	Joint Strategic Planning Document
MS	--	Milestone
MILCON	--	Military Construction Account
MILPERS	--	Military Personnel Account
MYP	--	Multiyear Procurement Plan
NAVAIR	--	Naval Air Systems Command
NAVCOMPT	--	Comptroller of the Navy
O&M	--	Operations and Maintenance Account
OMB	--	Office of Management and Budget
OSD	--	Office of the Secretary of Defense
PBD	--	Program Budget Decision
PDM	--	Program Decision Memorandum
POM	--	Program Objective Memorandum
PPBS	--	Planning, Programming and Budgeting System
PPC	--	Planned Program Changes
R&D	--	Research and Development
SASC	--	Senate Armed Services Committee

SECDEF -- Secretary of Defense
SECNAV -- Secretary of the Navy

I. INTRODUCTION

A. OBJECTIVES OF THE RESEARCH

This thesis addresses the biennial budget issue and how it could affect the Department of Defense (DOD) budget process. A Federal biennial budget is gaining an increasing amount of political support. President Reagan has endorsed the Packard Commission's recommendation for a biennial budget. In the Congress, both liberal and conservative Congressmen are also calling for a biennial budget. Though there is much support for a multiyear budget, the individual causes for this support vary considerably. While some see a biennial budget as an opportunity to extend the budget horizon and thereby allowing policymakers to take a broader perspective on major issues, others view it as a chance to increase the degree of Congressional micromanagement of the Federal agencies. Others claim that the traditional annual review process does not allow the Congress sufficient opportunity to review and formulate a budget. Due to this schedule pressure, budgets are then passed by policymakers who are not aware of the budget's contents.

One of the alternatives that has been proposed to help address these concerns is a Federal biennial budget. Congress has already taken the first step in this direction. The Department of Defense Authorization Act of 1986,

directed the Department of Defense to submit biennial budgets beginning with the 1988-1989 fiscal years [Ref. 1:Sec. 1405]. DOD complied with this direction and became the first Federal agency to submit a biennial budget.

The biennial budget format is not new. Many states have used a multiyear budget for years. Currently 21 states utilize a biennial budget [Ref. 2:p. 3]. The specific form and procedures vary widely from state to state. In recent years, various Federal biennial budget alternatives have been proposed in both the House and the Senate. For a biennial budget to be of assistance to those in the Department of Defense attempting to formulate and execute budgets, certain key elements must be present. This thesis will attempt to identify these key elements.

Since the late 1950s, Congress has become more and more involved in the budget formulation process. The Congressional Budget and Impoundment Act of 1974 helped to structure Congress' role in formulating and reviewing the Federal budget by establishing a Congressional schedule and process. It formally established two budget committees for Congressional oversight and extended the fiscal year in order to allow Congress nine months to review and formulate the budget. Unfortunately, Congress has been unable to meet its own schedule for reviewing and passing authorizations and appropriations bills. Continuing resolutions at the beginning of the fiscal year have become the expected. For

fiscal year 1987, Congress passed an Omnibus Appropriations Act covering all thirteen appropriations bills. This apparent breakdown of the budget formulation process has had a negative impact on the Department of Defense (DOD) budget execution process. As the public perception grows that the Congress is unable to deal with the budget process, pressure will probably mount for a solution. Indeed, this may already be occurring.

The purpose of this thesis is to determine the desired attributes that a biennial budget should have from DOD's perspective. The thesis will also attempt to identify the potential benefits and problems that a biennial budget could present DOD. The changes that have already occurred to the Program Objective Memorandum (POM) development and budget formulation processes as a result of the first multiyear budget will also be presented.

B. RESEARCH QUESTIONS

The primary research question for this study is:

What effects will biennial budgeting have on the Department of the Navy POM development and budgeting process?

The following subsidiary research questions were formulated to help define the primary research question:

1. What changes to the POM process has biennial budgeting caused?
2. Under a biennial budget, how will the Five Year Defense Plan (FYDP) be updated?

3. What second year review procedures have been or are proposed to be implemented? For OP-90 (POM)? For OP-92 (Budgeting)? For Congressional oversight?
4. The Department of the Navy's budget office has historically used rules for one year analysis; what rules, if any, have changed under biennial budgeting?
5. How did the Department of the Navy approach the biennial budget process of FY 1988-1989? How does this differ from the approach to FY 1990-1991?

C. SCOPE AND LIMITATIONS

This study was limited to the effects that biennial budgeting has had on the U.S. Navy's POM development process at the OP-90 level. In addition to this, the effects on the budget formulation process at the OP-92 and major claimant (NAVAIR) levels were studied.

It is not known how Congress will deal with the first DOD biennial budget proposal. It is possible that they will authorize both years (FY 1988-1989). It is very unlikely however, that they will appropriate both fiscal years in a single act. In any event, due to the current nature of this issue, this study will be limited in some respects to knowledgeable sources "best guesses" or estimates. In all likelihood, the Federal biennial budget issue will not be resolved for several years. This thesis will study the biennial budget issue at the Department of the Navy level as it is currently developing and attempt to forecast its effects and likely outcome(s).

D. RESEARCH METHODOLOGY

The general methodology utilized was to conduct a bibliographical search using the Naval Postgraduate School library computer. Information was also obtained from the Defense Logistics Studies Information Exchange (DLSIE), and the Defense Technical Information Center (DTIC). The author studied the literature resulting from these searches to gain a current understanding of the biennial budget issue and the Department of the Navy's (DON'S) POM development and budgeting processes.

This was followed by a research field trip to Washington, D.C. in February 1987 to augment the literature review. Interviews were arranged beforehand with officials at OP-90, OP-92 and NAVAIR. Congressional staff members were also interviewed. These interviews were the primary means of researching the key issues.

Following the research trip, the information gathered was studied and interpreted. Follow-up telephone interviews were conducted to further refine the results of the field trip. Thesis advisor input was utilized throughout the research effort to generate key questions and to help focus the study.

E. ORGANIZATION OF THE STUDY

The thesis is organized into five chapters.

Chapter I: Introduction--This chapter provides a broad introduction, identifying the purpose of the thesis and its

scope and limitations. The Methodology used to collect the data and how they were analyzed is also presented.

Chapter II: Background--A biennial budget background from an historical perspective is presented. The biennial budget's advantages and disadvantages are identified and the forces that are causing the current discussion of a biennial budget are studied. This is followed by the various common biennial budgeting alternatives and their implementation ramifications on DOD and the Congress. The chapter concludes with which alternative seems to be the preferred choice from DOD's perspective.

Chapter III: The Move Towards a Biennial Budget--This chapter studies the gradual movement towards a biennial budget at the Federal level. This trend "begins" with the causes and provisions for revising the Multiyear Procurement Plan (MYP) that became law in 1982. The implementation policy and procedures for the DON's first biennial budget submission (for FY 1988-1989) and the policy and procedures DON is currently using for its second biennial submission are studied. This study is done at the OP-90, OP-92, and Major Claimant (NAVAIR) level of interest.

Chapter IV: The Effects of the Move--The effects of the changes that biennial budget planning has or may cause at the OP-90, OP-92 and the Major Claimant level are considered. Specifically the changes to the POM development process, FYDP update, and changes to the budget formulation

procedures at OP-90 and the Major Claimant are studied. The review procedures that are being discussed for the second year of the biennial budget are also discussed. The chapter concludes with how DON is formulating various budgetary planning actions, in an attempt to anticipate Congressional action on the biennial budget.

Chapter V: Conclusions--A discussion of the conclusions drawn from the study are presented.

The intent of the thesis is to provide the reader with a current understanding of the issues and the debate that surrounds the biennial budget issue. The implementation of a biennial budget involves much more than simply enacting a systematic revision to the budget formulation process. It already has caused some changes in how DOD formulates the budget. Depending how Congress responds, the biennial budget could have a far reaching impact on how all Federal agencies conduct budgetary matters.

II. BACKGROUND

A. INTRODUCTION

This chapter provides a background to the biennial or multiyear budget. The commonly cited advantages and disadvantages are first presented. This is followed by a discussion of the forces that are causing support for the biennial budget at the Federal level and some of the obstacles that are standing in the way of its implementation. The common biennial budgeting alternatives are then presented along with a discussion of their implementation ramifications on DOD and the Congress. The alternative that seems to be favored from DOD's perspective is identified.

The biennial budget is not a new concept. In 1940 there were 44 states that had a biennial budget. Currently, there are 21 states using a biennial budget of some form or another. The primary reason given for shifting to an annual cycle is that an annual cycle allowed the legislatures to respond more effectively to changing conditions. It reduced the number of supplemental appropriations. [Ref. 2:p. 3]

B. ADVANTAGES AND DISADVANTAGES

Advocates of the biennial budget cite the following advantages to a biennial budget:

- 1) It would improve program funding stability. This, in turn, would reduce funding level uncertainty providing economies of scale and program efficiency.

- 2) A two year budget cycle would allow more time for Congress to review the budget proposals. This would provide more thoughtful consideration of budget matters and a more systematic planning, review, and evaluation process. It is felt by many that the current schedule is too tight and does not allow careful review.
- 3) Congress would be provided more time to spend on non-budget activities. Currently, the budget review function dominates the Congressional schedule. By the same token, less time would be spent by agency heads and program administrators justifying programs (advocacy) before Congress. More time could then be spent administering programs by the agency.
- 4) Biennial budgeting could allow Congress to take a broader view, permitting more time for oversight.
- 5) It could eliminate the problems of operating under a continuing resolution. It would, if nothing else, cut the need for continuing resolutions in half.
- 6) It could eliminate the overlap between the authorization and appropriations processes. In recent years, these processes have overlapped to the degree that appropriation marks are sometimes available before the authorization levels have been determined. [Ref. 3:p. 13]
- 7) The present process is too confusing and difficult to manage.

The commonly cited disadvantages to a biennial budget include the following:

- 1) A two year budget would reduce the level of Congressional control over the budget. Many members of Congress, particularly the Appropriations Committees, are currently unwilling to "lose control" of the second year of a biennial budget. The current system gives Congress more control over national policy.
- 2) Budget estimates for a two year budget would be less reliable than for an annual budget. Currently, by the time Congress passes a DOD budget request, budget estimates made in the programming phase can be up to 28 months old. A two year budget would make some of these estimates up to 40 months old. A reasonable issue is whether those developing budget estimates

would be involved in budgeting or long range planning [Ref. 4].

- 3) Since budget estimates would be less reliable, increased flexibility would be required. Greater transfer authority, and higher programming thresholds would be needed. It is unlikely that Congress would be willing to raise these thresholds making program management difficult.
- 4) Currently, when a new Congress and a new President are elected, they inherit eight months of a budget passed by their predecessors. Under a biennial budget, it is possible that 20 months of a budget would be inherited. If the election had indicated a need for reorganizing national priorities, the budget could and probably would be amended by a supplemental appropriation. This would disrupt the major advantage to a biennial budget; program stability.
- 5) Congress would lose some flexibility to respond to economic shifts in a macro-economic sense. If a change in economic policy was required, supplemental appropriations and budget amendments would be passed. This would once again undermine program stability.
- 6) From DOD's perspective there could be a loss of program implementation flexibility. It would be increasingly difficult to respond to technological advances or the constantly evolving strategic threat. Decision makers could have difficulty starting new programs in mid cycle. A bias could be established in favor of older more established programs at the expense of newer, more innovative ones.
- 7) The requirement for annual appropriations may help to "keep the process moving." If the schedule were changed to a biennial schedule, the process could become even further bogged down as the pressure to pass appropriation legislation was reduced to every other year.
- 8) From DOD's perspective, increased Congressional oversight may be defined as increased micromanagement.

Whether the advantages of a biennial budget outweigh the disadvantages depends on what form a Federal biennial budget takes. It also depends on the perspective taken. What is cited as an advantage for Congress, could be a significant

disadvantage for DOD. For DOD to realize the full potential benefits that can be accrued from a biennial budget, Congress needs to make some changes in its approach to the review and oversight process. A discussion of these relevant issues follows.

C. CAUSES FOR SUPPORTING A BIENNIAL BUDGET AND OBSTACLES TO ITS IMPLEMENTATION

Recently, Caspar Weinberger, the Secretary of Defense, stated the Department's position on the issue:

The two-year budget could help forge a new and strong commitment to our defense effort. It will permit Congress to concentrate on broad policy choices, priorities, and oversight reviews. Industry will be able to achieve lower costs. And our overall efforts at making available resources go farther will be greatly enhanced . . . the two year budget request, which Congress directed, is a vital first step in sustaining steady, modest growth over the long term. The Congress has a great opportunity to take a long-term view of budgetary commitments, their effect on future resources and policy decisions, and the relationship between strategy and resources. [Ref. 5:p. B-2]

Congress has been refining its approach to its oversight and review of the budget process for several years. One of the more substantive bills passed was the Congressional Budget and Impoundment Act of 1974. In his book, The Guide to the Federal Budget, Fiscal 1987, Stanley Collender identifies several reasons why Congress passed this act. One of the basic reasons was that Congress did not have sufficient time to review and pass authorization bills [Ref. 6:p. 14]. The bill changed the beginning of the fiscal year from July 1 to October 1 thus increasing the review period

from six to nine months. A look at Table 1 shows that the extension of the fiscal year did little to resolve this problem. Congress has not passed a DOD appropriation act prior to the beginning of the fiscal year since 1977.

TABLE 1
DATES OF ENACTMENT; DEPARTMENT OF DEFENSE
APPROPRIATIONS ACTS FY 1977-FY 1987

Fiscal Year	Effective Date	Public Law Design.
1977	22 September 1976	P.L. 94-419
1978	21 September 1977	P.L. 95-111
1979	13 October 1978	P.L. 95-457
1980	21 December 1979	P.L. 96-154
1981	15 December 1980	P.L. 96-527
1982	29 December 1981	P.L. 97-114
1983	21 December 1982	P.L. 97-377.
1984	8 December 1983	P.L. 98-212
1985	12 October 1984	P.L. 98-473
1986	9 December 1985	P.L. 99-190
1987	17 October 1986	H.J. Res 738

Fiscal Years 1977-1986 [Ref. 7:p. 4]
 Fiscal Year 1987 [Ref. 8:p. 2584]
 Format [Ref. 7:p. 4]

One of the factors that hinders Congress' ability to adhere to its own time schedule is the complexity of the DOD budget. Annual authorization and appropriation requires six different Congressional committees to review a "defense budget each year, comprising about 2,000 procurement line items, and about 1,000 items in research and development"

[Ref. 9:p. 27]. Some contend that nine months is simply insufficient time to review such a huge budget because the

. . . the frenetic rush of funding means that many programs are rarely, if ever, carefully evaluated. Congress lacks the time to collect and review all the relevant information for programs that must be authorized annually. In fact, while Congress spends little time in review and oversight of entitlement programs, these programs now account for more than half the federal budget. [Ref. 10:p. 3]

Prior to 1959, Congressional oversight of defense policy consisted of broadly defined defense authorization bills and then a more detailed review by the Appropriations Committees. Annual authorizations were used rarely; they covered only two programs: military construction and foreign assistance. It was through the Authorization Committees' annual hearings on military construction that the committees came to realize how much military strategy and budgetary authority had been given to the Executive branch and the Appropriations Committees. [Ref. 11:p. 27] Since then, annual authorization has become the norm and there has been increasing conflict between the Authorization Committees and Appropriation Committees. It has evolved to the point where it is not uncommon for bills to be appropriated before they are authorized. This places DOD in the difficult circumstance of being caught in a dispute between two powerful Congressional committees. Although not legally bound to do so, DOD's policy in this situation is to not obligate the funds until the Authorization Committees

have formally authorized the program's funding level [Ref. 12].

The provisions of the Congressional Budget and Impoundment Control Act of 1974 called for multiyear authorizations. Section 607 required that requests for new program authorization be submitted for at least the first two fiscal years of the program. The intent was to "develop a pattern for the enactment of authorizing legislation at least one year in advance of the fiscal year to which it first applies." [Ref. 11:p. 25] This would seem to be a step towards biennial budgeting. It certainly seems to serve the original purpose of the Authorizing Committees; to set program funding levels for the Appropriations Committees. The second year's authorization figure would also serve as a "target figure" for the development of a succeeding budget. Unfortunately, little if any attention has been paid to this provision of the Budget Act.

In a speech on the Senate floor, Senator Sam Nunn (D-GA) spoke on his concerns about the way Congress handles the defense budget. He stated:

. . . the burdens of the annual authorization process has produced two specific problems: it has led to a trivialization of Congress' responsibilities for oversight and has led to excessive micromanagement. Last year we directed the Navy to pare back its request for parachute flares, practice bombs, and passenger vehicles . . . and had the Air Force cut its request for garbage trucks, street cleaners and scoop leaders.

He concluded saying that members of Congress and their staffs are "acting more and more like national program

managers in their oversight of defense and . . . focusing on grains of sand on the beach while we should be looking over the broad ocean and beyond." [Ref. 13:pp. 197-198]

In a companion speech the same day, Senator Barry Goldwater (R-AZ) stated that the current budget/process "drives us to use continuing resolutions which disrupt stable long term planning in DOD, forcing it to begin each fiscal year without knowing the level of funds that it has available or the limitation placed on those funds." [Ref. 13:p. 197] Beginning each fiscal year with an unknown level of funding has had a disruptive influence on DOD's acquisition process. It is common for the program manager to begin the fiscal year not knowing the level of funding that will be appropriated. This creates a high level of uncertainty in the acquisition of major weapons systems. Additionally, the budget is formulated in a very thoughtful and deliberate process. As Congress feels the pressure, however, to pass the required appropriations bills, indiscriminate cuts are sometimes made. This can contribute to program instability, loss of economic order quantities and economies of scale.

Unfortunately, continuing resolutions have become the norm. Their original intent was to provide a means for an agency to continue operating while Congress reviewed and passed the particular appropriation act under consideration. They have become the vehicle for passing appropriations

acts. In 1987, Congress passed a single Omnibus Appropriations Act instead of the thirteen they are "required" to review and pass. This collapse of the Congressional role in budgeting undermines the effectiveness of the entire budget formulation process and negatively impacts those trying to administer programs.

The following is a description of the floor action on the FY 1987 Omnibus Appropriation Act:

. . . Action on H.J. Res 738, provided all the complaints common to continuing resolutions . . . that members did not know what was in the bill, that its amendments made policy outside the normal legislative process, and that all but Appropriations Committee members were excluded from decision. When the House acted on 15 October, the only complete copy of the conference agreement appeared to be an untidy, two foot high stack of papers bound by string, resting on a desk near Appropriations Committee Chairman Jamie L. Whitten [D-Miss]. The Daily Congressional Record, lagging by several days because of end of session printing pressures, carried little debate and no data on the agreement immediately following the House and Senate action. [Ref. 8:p. 2585]

The Packard Commission recognized this deficiency. The commission recommended that the current budget process be amended to include a biennial budget. Some of their major revision recommendations can be summarized as follows:

- 1) The Secretary of Defense should recommend appropriate military strategy and options to the President with a corresponding five year defense budget level. This would provide the President an opportunity to select a defense program based on realistic funding estimates.
- 2) The President would then select and approve a five year defense program with its associated budget constraints. (In this context, the five year defense program is not the same document as the Five Year Defense Plan which is one of the results of the current POM process.)

- 3) The Secretary of Defense would then utilize the guidance provided in the approved five year plan to develop a biennial budget.
- 4) Congress should then institute biennial budgeting by authorizing AND appropriating both years (not each year separately). Congress should also limit their oversight of the defense budget to operational concepts and major issues, not line item detail. Finally, Congress "should adopt milestone authorization for major weapon systems. In addition to using major system baseline techniques, Congress should extend a multiyear funding for such approved major programs as much as possible." [Ref. 14:pp. 493-494]

The conclusions that can be drawn from the Packard Commission recommendations are clear; to maximize efficiency, the acquisition and procurement of major weapons systems must be tied to a long range funding horizon linked with a long range commitment to a national defense program. To complement this, Congressional oversight should be expanded and given a broader focus.

Another factor that has contributed to confusion and complicated the oversight process is a lack of trust that Congress has with respect to DOD. In his book, The Politics of the Budgetary Process, Aaron Wildavsky identifies trust as a key ingredient of the budget formulation process. The complexity of the Federal budget requires that the legislature trust the individual agencies. This has historically been one of the "calculation aides" that has been used to reduce the complexity of formulating the budget [Ref. 15:p. 74]. As the amount of trust has declined, however, the degree of Congressional micromanagement has

increased dramatically. Widely publicized stories of the \$450 hammer and \$600 toilet seat, though they do not take into full account the causes of these inflated prices, add fuel to the fire. This erosion of confidence has transformed the budget formulation process into such a cumbersome process that many argue that the current system is totally ineffective.

Some believe that Congress will not adhere to any time schedule, multiyear or not, until there is sufficient public pressure for it to do so. It is not merely an issue of insufficient time and too complex a system. The Emergency Deficit Reduction Control Act of 1985 revised the Congressional budget schedule. It eased some of the requirements that the Budget Act of 1974 set. The new timetable (Table 2) requires adoption of one resolution instead of two and an earlier budget submission by the President to allow Congress additional time. The Act set "firm" dates that budget activities "must" be accomplished by. Some required action that must be accomplished before Congress can recess for holidays. To date, the timetable has been ignored as Congress has proceeded at its own pace, recessing as it sees fit. The budget is so complicated and the DOD budget so political and controversial, that tough decisions on tough issues are put off until the last minute. Indeed, some view the automatic cutting mechanism of the

TABLE 2

KEY BUDGET DEADLINES

<u>DEADLINE</u>	<u>ACTUAL</u>	<u>ACTION TO BE COMPLETED</u>
5 Feb 1986	5 Feb 1986 [Ref. 16:p. 215]	President submits budget to Congress
15 Apr 1986	26 Jun 1986 [Ref. 17:p. 1440]	Congress completes action on budget resolution
10 Jun 1986	14 Aug 1986 [Ref. 18:p. 2297]	House Appropriations Committee report annual appropriations bill
15 Jun 1986	Not Done	Congress completes action on reconciliation legislation
30 Jun 1986	Not Done	House completes action on thirteen appropriation bills
	17 Oct 1986 [Ref. 8:p. 2584]	Omnibus Appropriation Act passed

Deadline Schedule [Ref. 6:p. 22]

Gramm-Rudman-Hollings Act (GRH) as simply a vehicle for Congress to avoid making some of these difficult decisions.

The Gramm-Rudman-Hollings bill is considered by some to be an obstacle to implementing the biennial budget. . It tends to exacerbate the disadvantages and to minimize the advantages of a biennial budget. In March 1986, following the passage of the act, a study within the Department of the Navy was done to assess its potential impact on the biennial budget proposal. Some of the study's key findings follow:

1. Stability--Program stability has been identified as one of the major advantages that a biennial budget would provide. In light of GRH, it is increasingly unlikely that Congress would be willing to appropriate funds for two years if there was reason to believe that the automatic cutting mechanism would be triggered. This would cause an unknown amount of funds to be cut, disrupting program stability.

Secondly, Gramm-Rudman-Hollings is an inherently destabilizing influence in procurement, research & development, and military construction accounts. Any funds obligated for a program are subject to being cut for as long as those funds are available.

2. Flexibility--The mirror image of stability is flexibility. For a biennial budget to be effective from a budgeteer's perspective, program flexibility would have to be improved. In this sense, program flexibility is defined in terms of increasing reprogramming thresholds and transfer authority. Since Gramm-Rudman-Hollings uses a mechanical formula to make reductions, it would probably reduce the flexibility we already have to move funding between programs.

If Congress did indeed appropriate both years of the biennium in a single appropriation act, most of the procurement, research & development (R&D), and military construction (MILCON) funds would be obligated in the first year of the biennium. This would leave operations & maintenance (O&M) and military personnel (MILPERS) accounts open to absorb most of the GRH cuts.

3. Time for Planning--One of the advantages to a biennial budget is that it would provide increased opportunity for more thoughtful, systematic, planning and evaluation. Time made available for these areas would be lost to the increased management attention required to implement the cuts mandated by GRH. [Ref. 19:pp. 1-2]

The Department of Defense biennial budget request was the only one included in the President's January 1987 budget proposal. All other Federal agencies submitted annual requests. It is difficult to imagine how Congress can seriously consider the second year of DOD's budget when they

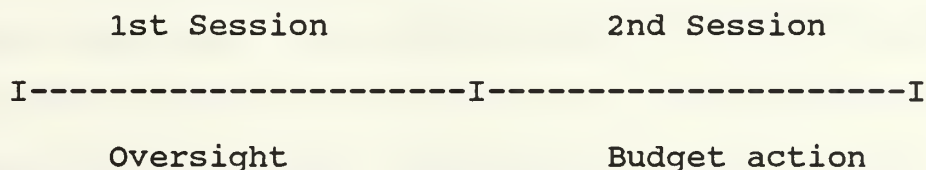
are looking at only a piece (albeit a major piece) of the Federal budget and not the budget in its entirety for FY 1989. The budget is not a static document but a dynamic statement of national priorities and objectives. How can only a portion of these issues be considered and not the others? In the course of a discussion about this issue, a Congressman's aide said: "That is not a problem, Congress can always cut the funds in the second year." This is a convenient solution for the Congress but certainly not a viable alternative from a budget administrator's perspective.

D. ALTERNATIVE BIENNIAL BUDGET PROPOSALS

Since the 97th Congress, there have been several biennial budget bills introduced in Congress. In the 98th Congress there were four bills, in the 99th, five bills and so far in the 100th there have already been three bills proposed [Ref. 20]. The biennial budget seems to be gaining support in the Congress. An increasing number of influential Congressmen are supporting them. All of the bills introduced, if enacted, would change the Congressional timetable to develop the budget. The features that distinguish the bills are whether there would be two appropriation bills or one, and in which session the legislation would pass. The more highly regarded bills will now be discussed.

Congressman Leon Panetta (D-CA) has introduced a version of a biennial budget in the last three sessions of Congress. This bill would authorize and appropriate funds for the full biennium in a single appropriation act. What distinguishes his bill from the other popular biennial budget reform bills is the sequence of events.

The Panetta bill would provide for Congressional oversight in the first session of a new Congress with the budget formulation activities occurring in the second session.



The passage of a single appropriation act covering two years is an essential ingredient of a biennial budget from DOD's perspective. Some argue, however, that Congressman Panetta's proposal has two important weaknesses.

First, the new Congress and a new President would inherit 20 months of a previous Congress' (and President's) budget. After an election when it is made clear that the people want a change in public policy, the newly elected members would want to respond. It is unlikely that the elected members would want to wait (nor would the people want them to wait) 20 months to do so. More than likely, a supplemental emergency authorization and appropriation act would be passed in the first session. This, though

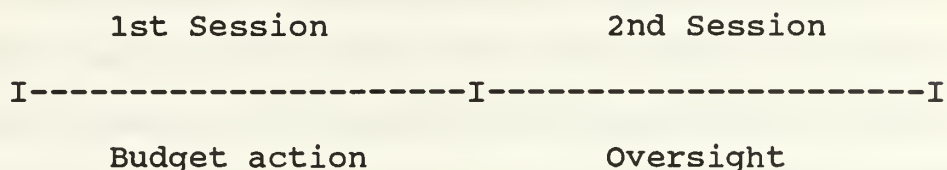
responding to the people's will, would eliminate the primary benefit of a biennial budget: providing program stability.

Secondly, Congressman Panetta's bill would also cause Congress to make difficult budget decisions in an election year, the year when it is most unlikely for them to make tough political decisions. This, together with an understandable desire to be on the campaign trail, make the second session an unlikely one to complete budget action.

Another popular bill is one that Senator Roth (R-Del) introduced in the 98th Congress (S. 20). In the 99th Congress, Congressman Hutto (D-FL) and Congressman Aspin (D-WI) introduced a bill very similar to Senator Roth's bill (H.R. 748). In the 100th Congress, Senators Roth, Domenici, Quayle, Kassenbaum, Boschwitz, Symms and Danforth, introduced another biennial budget bill, S 416. In many respects, this bill is quite similar to Senator Roth's original bill. Senator Domenici's (ranking minority member of the Senate Budget Committee) support of the biennial budget, provided a significant boost to its support [Ref. 20]. It is also interesting to note that Senator Quayle (in conjunction with Senator Ford) had submitted a biennial budget bill in the 98th Congress. His support of Senator Roth's bill, along with the other influential supporters may signal a growing consensus within the Senate.

The Roth bill would provide for an appropriation for the full two years. This would be done in the first session of

a new Congress. The second session would be used for oversight and review of supplemental legislation on revised budget estimates submitted by the President (S 416).



In a summary of the major issues pertaining to biennial budgeting, GAO selected Senator Roth's proposal as the preferred alternative if Congress should decide to switch to a biennial schedule. GAO found this timetable attractive because it:

- places difficult budget vote in non election years
- allows the budget to be adopted during the first year of a President's term every other biennium, providing the opportunity to swiftly implement a new President's program, and
- leaves the second session of Congress relatively free for oversight. [Ref. 2:p. 6]

Senator Roth's proposal seems to be the best biennial budget alternative from DOD's perspective. It provides the benefit of a two year appropriation while it minimizes the disadvantages of Congressman Panetta's bill. None of the bills, however, deal with providing the agency with increased flexibility in the second year of the biennial budget. The bills are strictly a systematic approach to budgeting. They do not, for example address increased reprogramming or transfer authority thresholds.

The figures on the following pages are provided to model the impact that various biennial budget alternatives could have had on the DOD budget authority requests. The years chosen to model these effects were FY 1982-FY 1987. Both line graphs and bar graphs are presented in an effort to more clearly illustrate the effects of the various biennial budgeting alternatives.

Figures 1 and 2 model the budget authority (BA) actually requested by the Administration vs. the budget authority actually passed by the Congress. It can be seen that from FY 1982 through FY 1985, the BA passed by Congress lagged the Presidential request by a fairly consistent amount. Additionally, throughout these years, the BA requested and passed increased in a near linear fashion. From 1985 through 1987, the gap between the two lines widens. This reflects disagreement between the Administration and the Congress on the size of the Defense budget. It is likely that if biennial budgeting were in place, agreement between the Administration and the Congress on the size of a budget could more easily be reached in a period such as that experienced between FY 1982 and FY 1985. During periods when there is a lot of debate on this issue, a biennial budget could serve to slow the entire budgetary process. This would be caused by the difficulty encountered in reaching an agreement on a two year lock-in decision.

Figures 3 and 4 model a mechanical approach to budgeting. Though not a viable alternative to current budgeting methods, it was done to simply study the effects that such an approach would have on a biennial budget. The method used was to take the actual BA request made by the President in the first session of Congress and extending it to the second session. From FY 1982-FY 1986, it can be seen that if this approach were taken, the Administration's BA request in the second session of Congress would lag the actual request by a significant amount. This reflects the loss of flexibility in the second year of a biennial budget. During periods of a rapid buildup in Defense such as that experienced from FY 1982-FY 1986, this approach would tend to hold down the rate of growth in the second year of the biennial budget. By the same token, during periods when DOD is experiencing cuts in spending, a mechanical approach could tend to stabilize spending, thus slowing the rate of decrease and giving the Services more money. The first trend is evident from 1982-1986 and the second begins to appear after 1986. From FY 1986-FY 1987, this method closely approximates the actual BA requested by the President. This could be expected during periods of stable spending. In any case, the variability in this mechanical budget could lead to inefficiency as resources lag or lead problems. If this approach were taken, it would impact negatively on program development and sustained growth.

Figures 5 and 6 model a biennial budget submission by the President in the first session of the Congress. This would be the situation provided by the Roth proposal. It was done by taking the amount the Administration actually requested in the first session of each Congress and adding to that the estimated amount of BA request for the succeeding fiscal year as found in The Budget of the United States Government, for the next fiscal year. (When a President submits a budget, he also submits a budget estimate for the next two fiscal years. To make a biennial budget, the actual request was combined with the estimated request for the first year following the Presidential request.) It can be seen that the slope of the biennial submission tends to be steeper than that of the actual request. Agreement on two year lock in decisions are more difficult to arrive upon however. In view of this it is likely that the actual slope would be reduced. It can also be seen that a biennial budget tends to increase the variability of the budget requests. This would impact negatively on program stability; a stated advantage of a biennial budget.

Figures 7 and 8 model a Presidential submission during the second session of Congress. This would be the case if the Panetta proposal were to be adopted. These graphs assume that the President inherited his predecessor's FY 1982 budget and displays one of problems of a multiyear

budget; the difficulty encountered in being able to rapidly respond to a change in policy. To make the assumption that an incoming Administration could significantly alter a previously authorized and appropriated biennial budget would again negate a stated benefit of biennial budgeting; program stability. If Figures 5 and 7 are compared, it can be seen that the slope of Figure 7 rises more sharply than Figure 5. It is questionable if an Administration, under normal circumstances, would actually be successful in pushing this rate of increase through the Congress.

BUDGET AUTHORITY DATA

	FY	FIRST SESS	SECOND SESS	PRES BA REQ	PA PASSED
1	82	226.3	200.3	226.3	218.7
2	83	259.6	263.0	263.0	245.8
3	84	280.5	291.0	280.5	265.2
4	85	330.0	313.4	313.4	294.7
5	86	322.2	359.0	322.2	281.4
6	87	363.3	320.3	320.3	284.9

FIRST SESSION FY 82-83 [Ref. 21:pp. 34,99]
 FY 84-85 [Ref. 22:p. 5-8]
 FY 86-87 [Ref. 23:p. 5-5]

SECOND SESSION FY 82 [Ref. 21:p. 34]
 FY 83-84 [Ref. 24:p. 5-10]
 FY 85-86 [Ref. 25:p. 5-10]
 FY 87 [Ref. 26:p. 5-5]

PRES. BA REQ. FY 82 [Ref. 21:p. 34]
 FY 83 [Ref. 24:p. 5-10]
 FY 84 [Ref. 22:p. 5-8]
 FY 85 [Ref. 25:p. 5-10]
 FY 86 [Ref. 23:p. 5-5]
 FY 87 [Ref. 26:p. 5-5]

ACTUAL FY 82 [Ref. 22:p. 5-8]
 FY 83 [Ref. 25:p. 5-10]
 FY 84 [Ref. 23:p. 5-5]
 FY 85 [Ref. 26:p. 5-5]
 FY 86 [Ref. 27:p. 5-7]
 FY 87 [Ref. 28:p. 2581]

ACTUAL PRES BA REQ vs ACTUAL BA PASSED

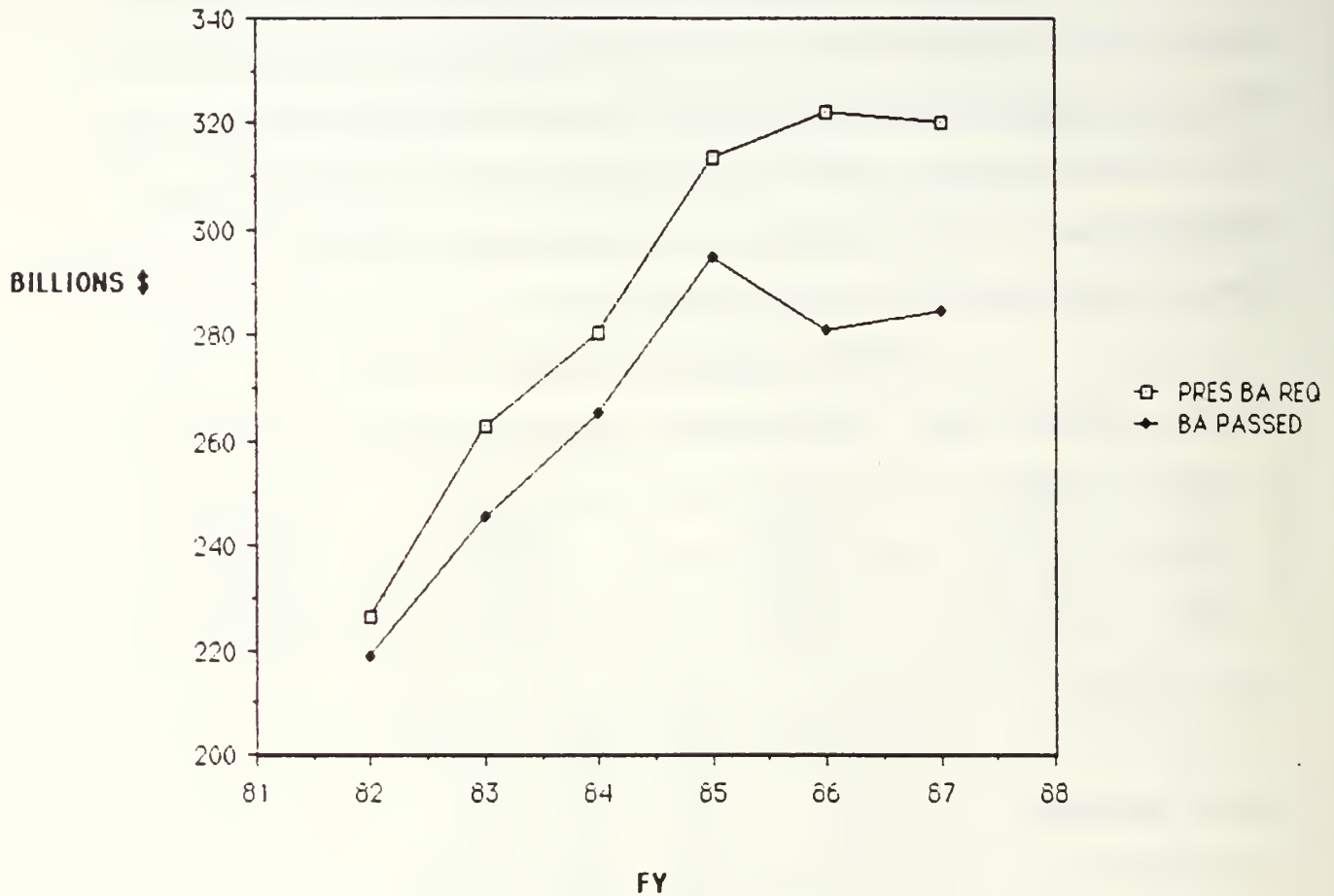


Figure 1. Scatter Graph of Budget Authority Requested by the President in Each Session of Congress vs Actual

ACTUAL PRES BA REQ vs ACTUAL BA PASSED

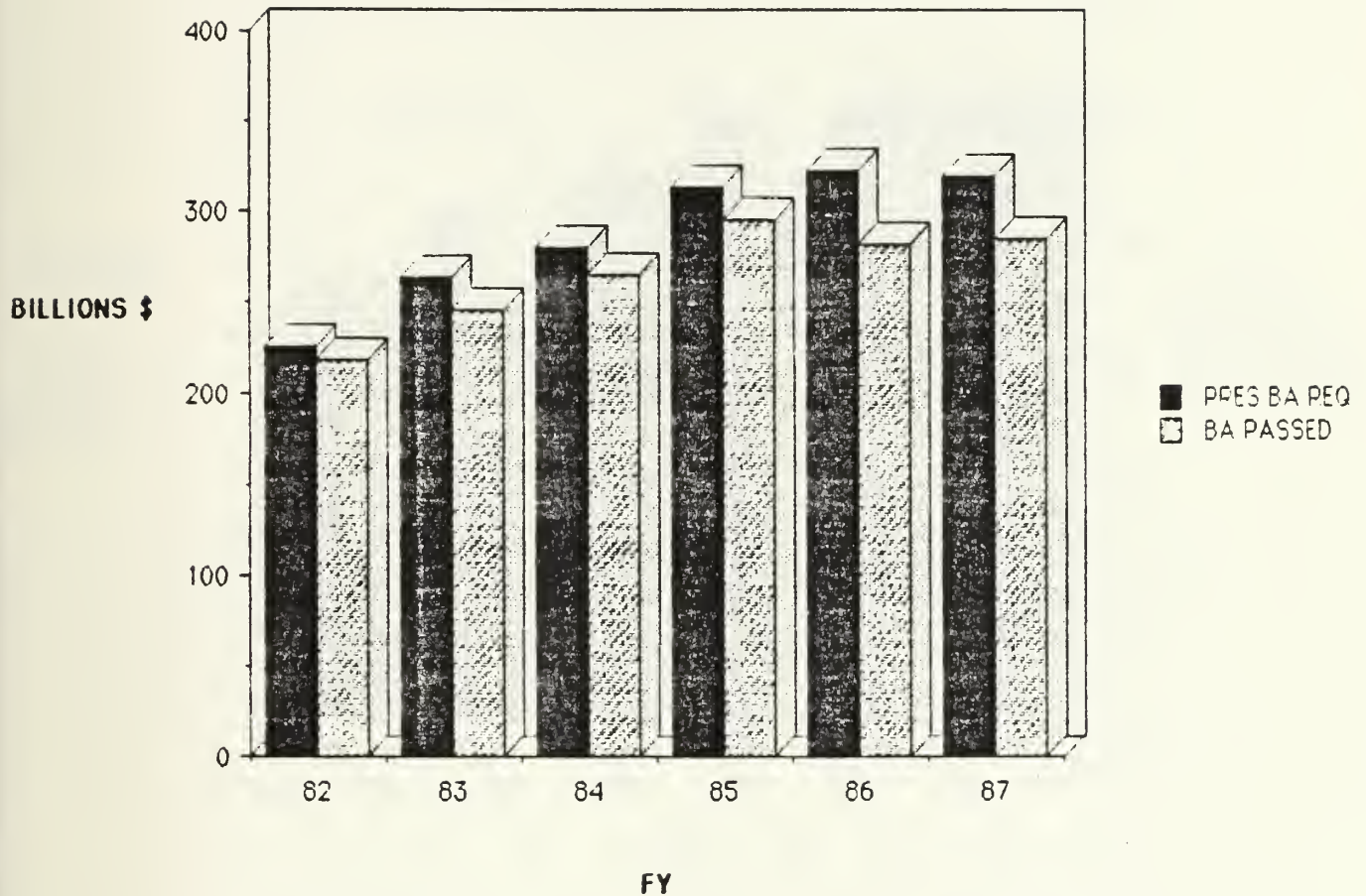


Figure 2. Bar Graph of Budget Authority Requested by the President in Each Session of Congress vs Actual

DOUBLE FIRST SESS REQ vs ACTUAL BA REQ

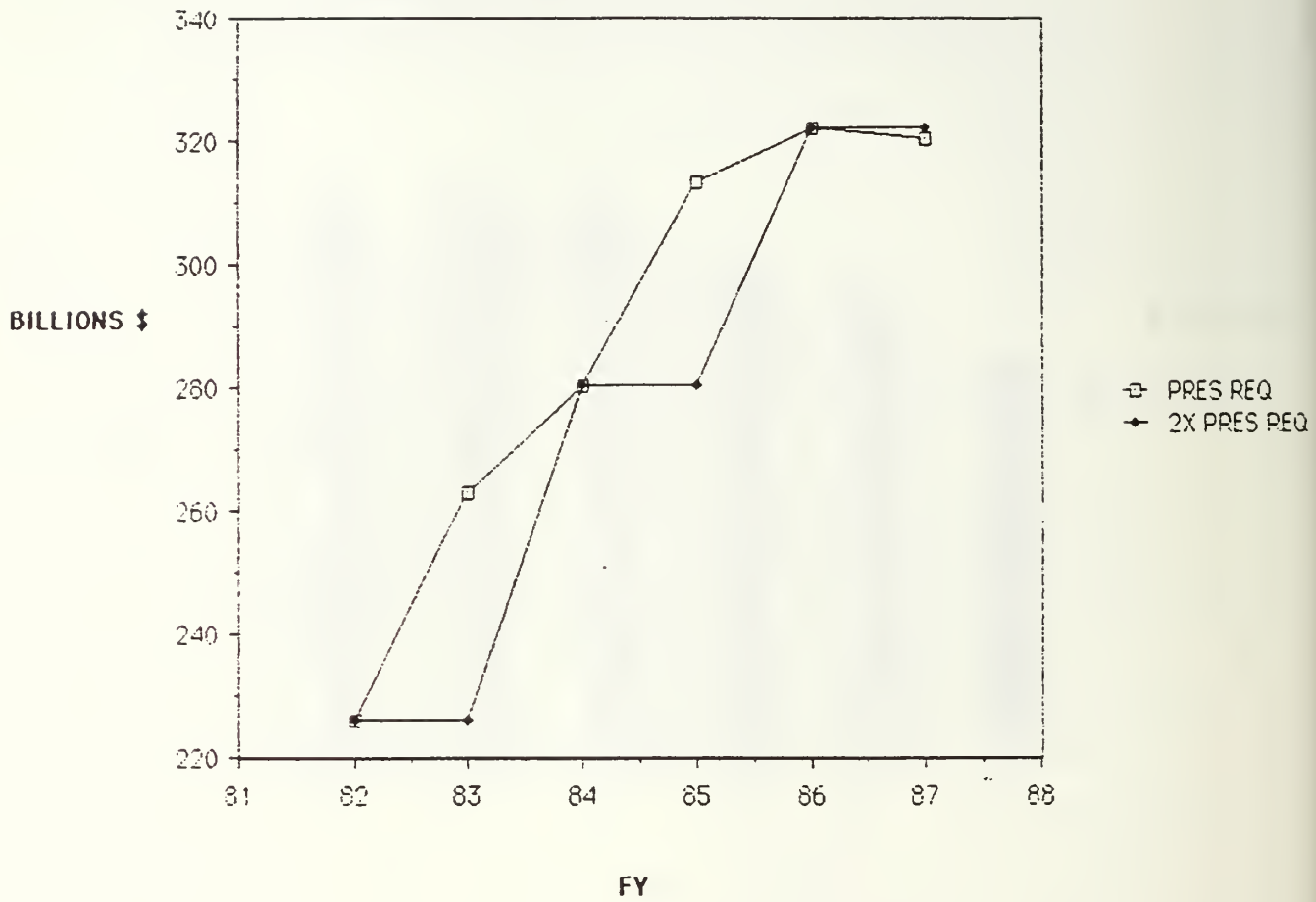


Figure 3. Scatter Graph of Double First Session President Budget Request vs Actual President Request

DOUBLE FIRST SESSION REQ vs ACTUAL BA REQ

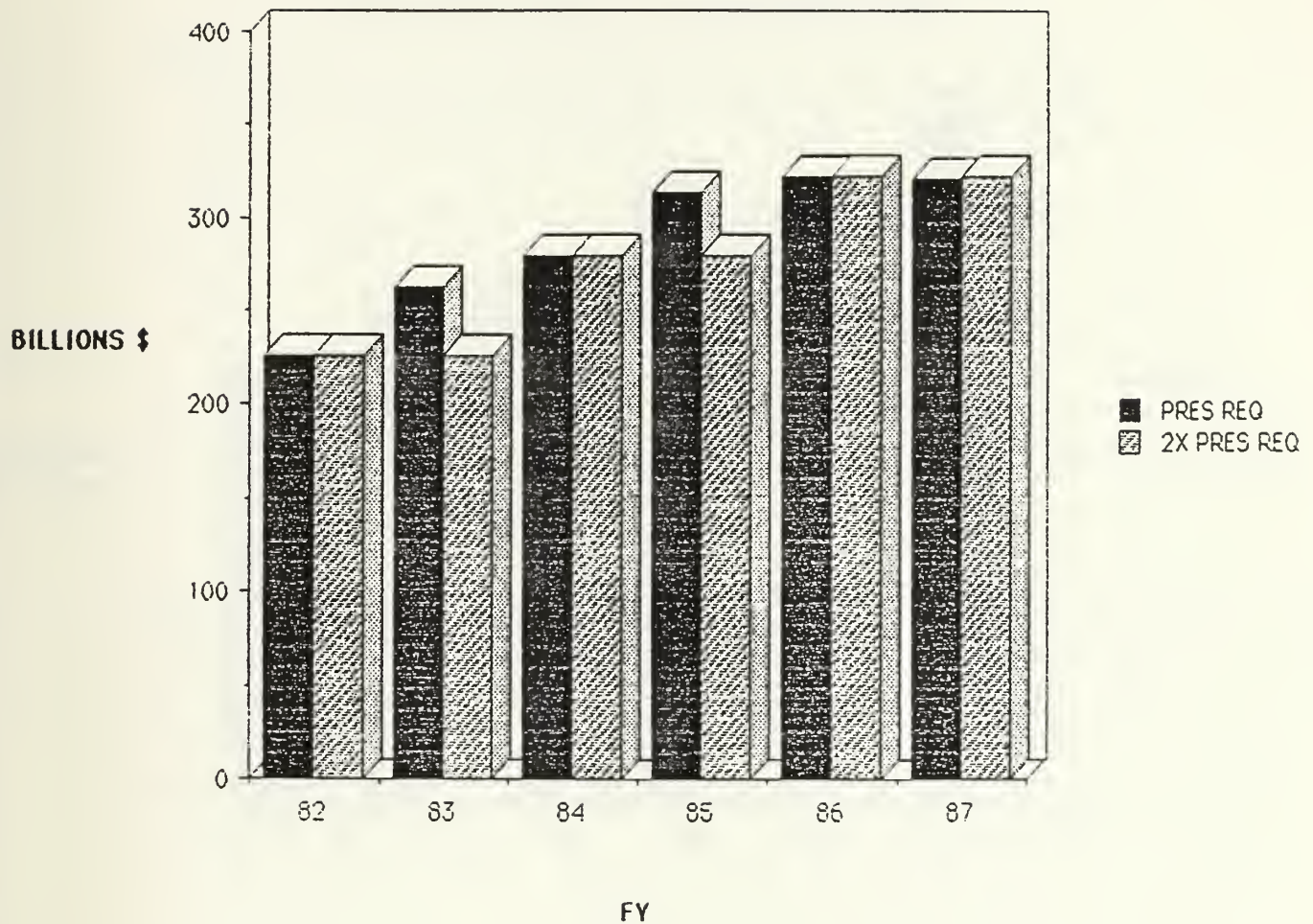


Figure 4. Bar Graph of Double First Session President Budget Request vs Actual President Request

FIRST SESSION SUBM vs ACTUAL PRES BA REQ

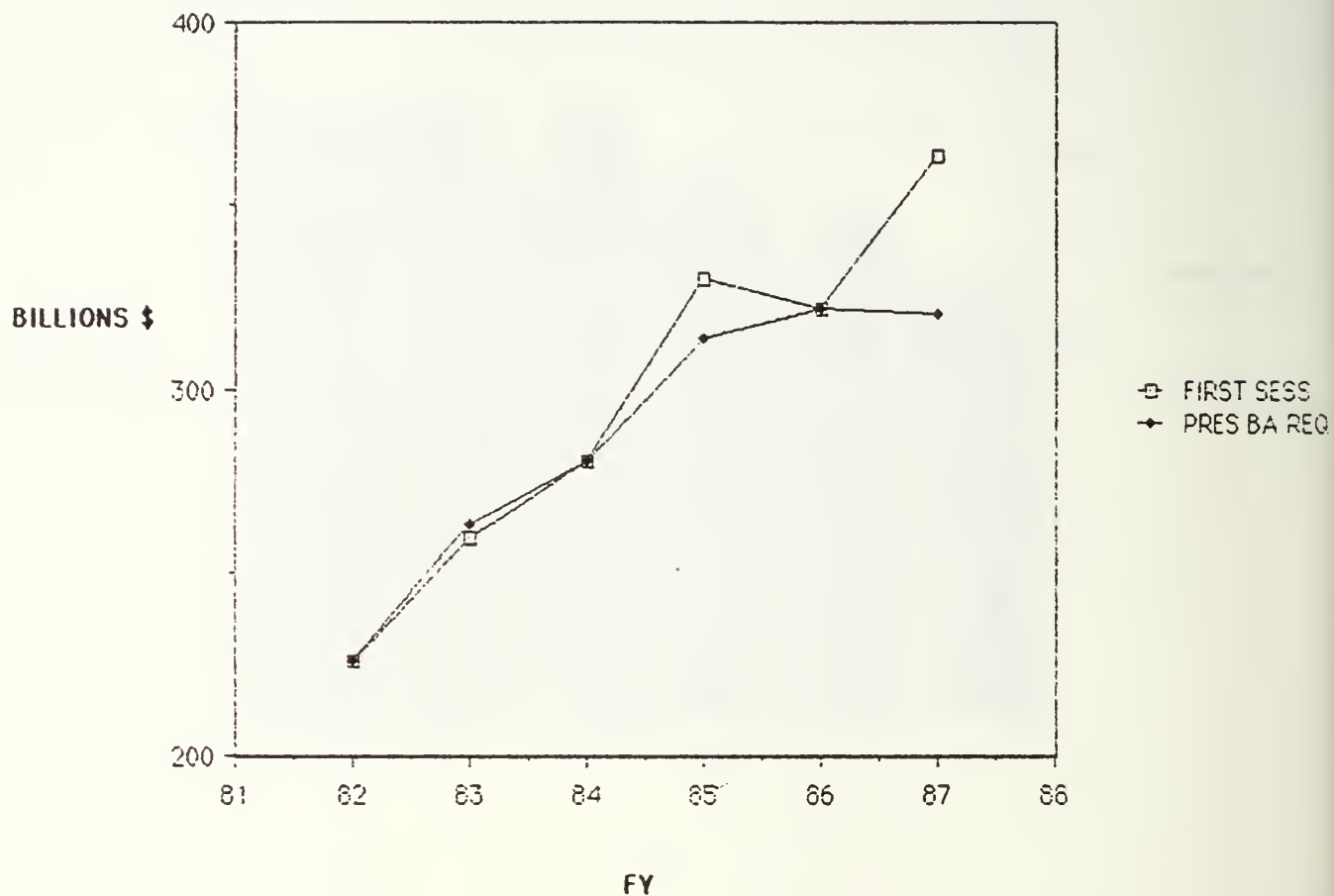


Figure 5. Scatter Graph of BA Requested by the President in First Session of Congress vs Actual President BA Request

FIRST SESSION SUBM vs ACTUAL PRES BA REQ

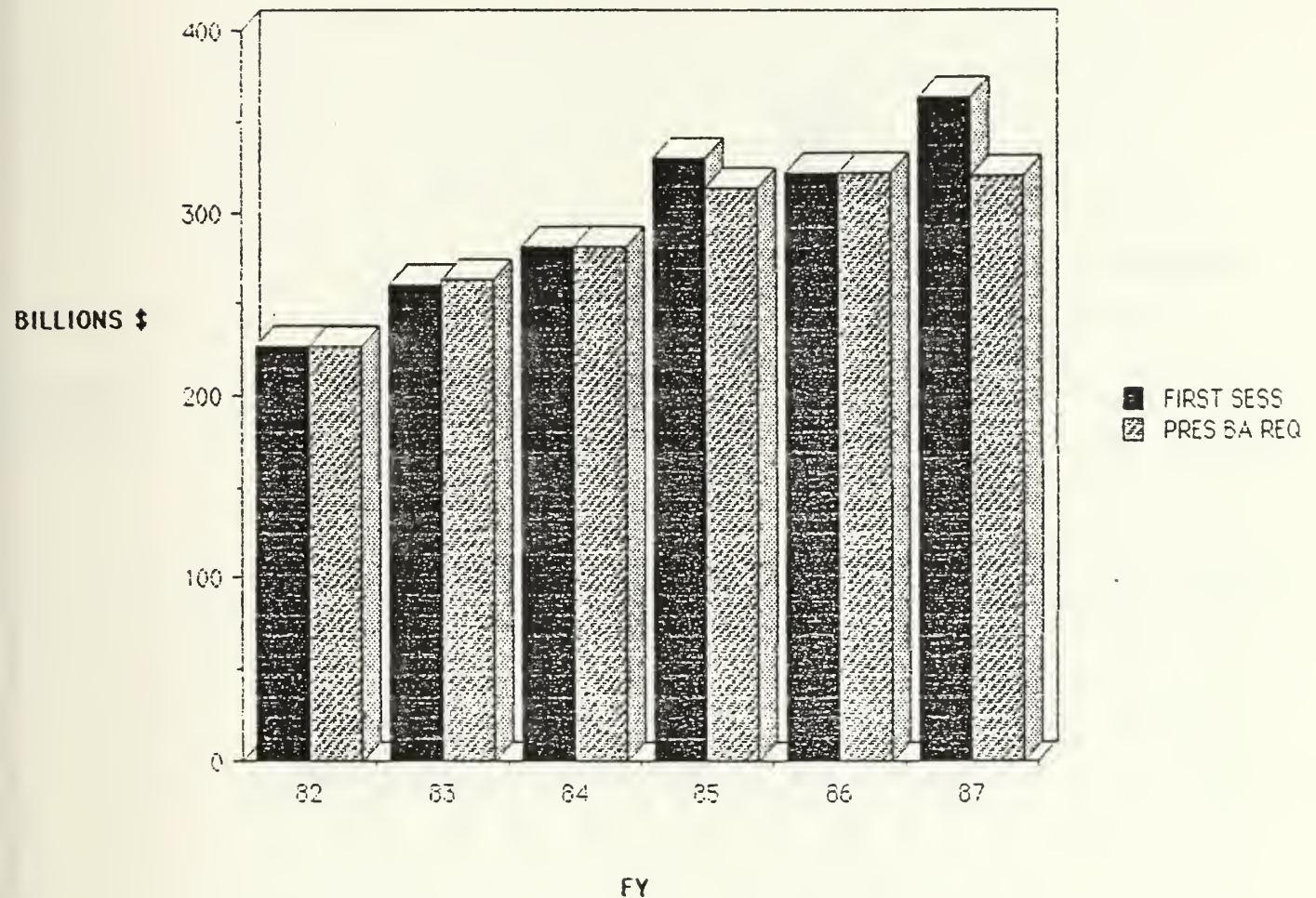


Figure 6. Bar Graph of BA Requested by the President in First Session of Congress vs Actual Presidential BA Request

SEC. SESSION SUBM vs ACTUAL PRES BA REQ

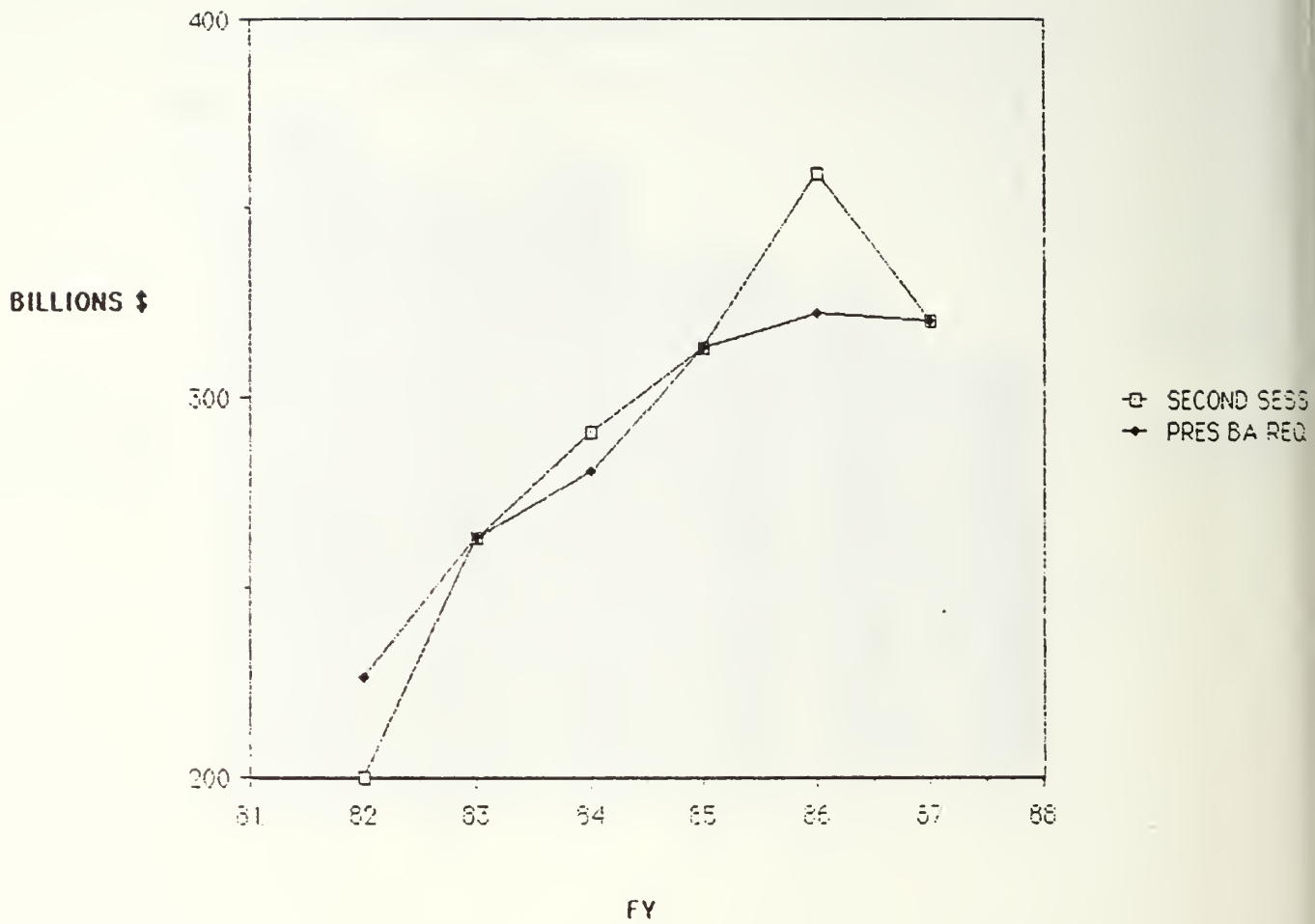


Figure 7. Scatter Graph of BA Requested by the President in Second Session of Congress vs Actual Presidential BA Request

SEC. SESSION SUBM vs ACTUAL PRES BA REQ

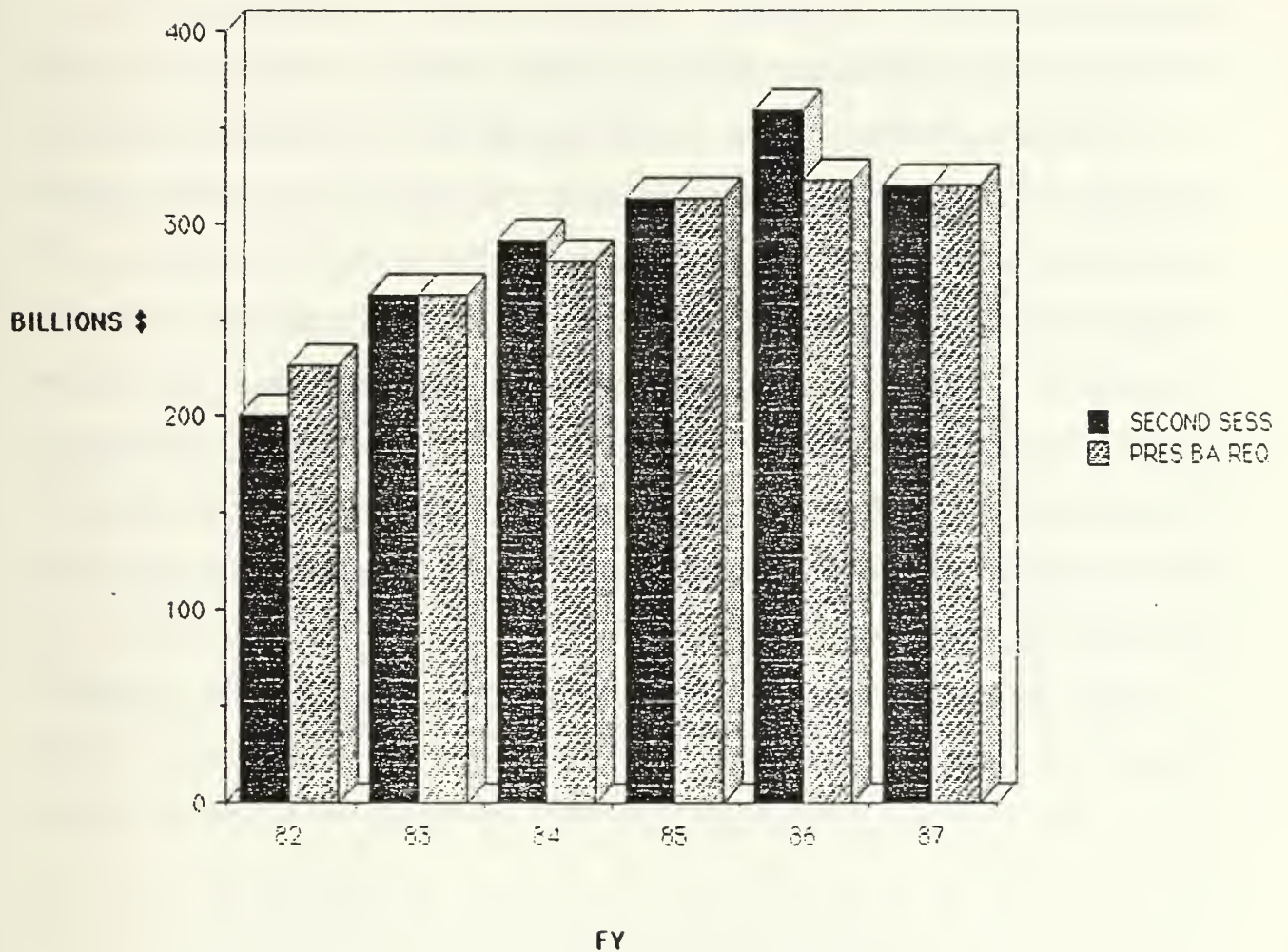


Figure 8. Bar Graph of BA Requested by the President in Second Session of Congress vs Actual Presidential BA Request

The purpose of this chapter has been to provide a background to the biennial budget debate. The biennial budget is gaining support and momentum, within Congress, the Executive Branch, and DOD. At issue, however, is a specific definition of a biennial budget. Its definition will determine what form it takes and what effect it has on DOD.

Within Congress, some members support a biennial budget because it eases the current budget formulation schedule and provides more opportunity for oversight. If oversight is defined to be micromanagement, that would not be of benefit to DOD. Other members of Congress support the biennial budget because of the stability and the benefits of economy of scale that could be realized. Generally speaking, those that support a biennial budget within DOD see this as its primary advantage.

The next chapter studies the apparent gradual movement towards a biennial budget.

III. THE MOVE TOWARDS A BIENNIAL BUDGET

A. INTRODUCTION

This chapter discusses the increasing interest in a Federal biennial budget. The environment that contributed to Congressional and Department of Defense interest is discussed. The movement towards a Federal biennial budget is then presented beginning with the interest in streamlining the acquisition process. Proposals to this end are the Multiyear Procurement Program and funding acquisition programs on a major milestone basis. The provisions and the benefits that could be derived from these programs are presented. This is followed by a discussion of the reasons for Congress and DOD's interest in a biennial budget. The chapter concludes with how DOD implemented its budget submission for FY 1988-1989 and the approach that is being taken to prepare for the FY 19880-1991 submission.

B. THE ENVIRONMENT

In the late 1970's and early 1980's there was a growing awareness in America that defense spending needed to be increased. The Soviet military build up combined with their more aggressive behavior as shown in Afghanistan, Angola, and the shooting down of a civilian aircraft (Korean Airlines Flt #007), provided cause for great concern. During the same period, the United States had been cutting

back defense spending and had suffered humiliating defeats in Iran, Nicaragua, and Pakistan (among others). America seemed incapable of successfully exerting its influence overseas. This was particularly frustrating in light of the Soviet "successes."

In 1980, the Republican party campaigned on this issue. They perceived that a defense gap existed and that a "window of vulnerability" would occur in the mid 1980's. This urgently needed to be corrected. As a result, the Republicans lead by Ronald Reagan, pushed for significant increases in defense spending. The Democrats also supported increased defense expenditures but to a more limited degree. President Reagan was ultimately elected and was largely successful in being able to push his program of increases in defense outlays, decreases in domestic spending and tax cuts through the 97th Congress.

As interest in improving our defense posture increased, efforts to improve and streamline the acquisition process grew as well. The current authorization/appropriation process causes much funding level uncertainty from year to year. Each year, DOD must justify its various programs before six Congressional committees. Much political gaming goes on with the end result being funding level uncertainty. Because of this, virtually every major acquisition program has experienced funding problems during the procurement process.

Clearly, one of the program manager's biggest concerns is not knowing the level of funding that will be provided from year to year and milestone to milestone. Funding requirements and life cycle costs are identified early in the concept exploration phase and are updated throughout the acquisition process. As funds are cut (the typical case) money must be "found" to support the program. This often entails taking money previously assigned to "lower priority" or long lead items such as Integrated Logistic Support (ILS), and then assigning these funds to more immediate concerns. This contributes to program instability, loss of economies of scale, and ultimate deficient funding of those less immediate but still important concerns.

In this environment, government contractors are understandably reluctant to make major capital outlay commitments. A more stable funding horizon may not eliminate these contractor and program manager concerns. It could, however, have a significant positive impact on the problem. This would be done by providing the contractor with an increased government commitment to a given program thus reducing the amount of risk the contractor must assume. More stable funding would also allow the program manager more time to manage the program effectively and less time shuffling funds around and being forced to deal with the advocacy issue.

Two reforms that have been proposed to help improve program stability are the Multiyear Procurement Program (MYP) and the funding of programs on a major milestone basis. The MYP has been enacted into law by Congress, however the funding of programs on a major milestone basis is still in the proposal stage. A biennial budget could effectively complement both of these measures.

C. MULTIYEAR PROCUREMENT AND MAJOR MILESTONE FUNDING

In 1982, the option to enter into multiyear procurement contracts for major weapon system programs became available to DOD. It was a result of a memorandum by then Deputy Secretary of Defense Frank Carlucci, establishing 32 initiatives for improving the acquisition process. Though this option of multiyear procurement had long been available to DOD, its low contingent liability threshold of \$5 million on the reimbursement of contractor expenses in the event of contract cancellation, excluded its use in procuring major weapon systems. The act passed in 1982 raised this threshold to \$100 million making it a viable vehicle to fund major acquisition programs. [Ref. 29:p. 16]

The Multiyear Procurement Program (MYP) allows DOD (when approved by Congress) to enter into contracts for procuring major weapon systems extending for more than one year but less than five years. This longer contractual period reduces funding uncertainties and makes the contractor more willing to make capital investments and to procure materials

in economic order quantities [Ref. 29:p. 17]. The savings resulting from these economies of scale result in lower contract costs.

Even though the government commits itself to contracts that extend beyond the fiscal year, the funding is still done annually. If Congress cuts the program in a subsequent year, the contract may end up being cancelled. The cancellation would then cause the government to be liable for certain contractor unrecovered costs incurred in conjunction with outyear buys. [Ref. 29:p. 17]

Not all major weapons procurement programs qualify for MYP consideration. Specific qualifying criteria were established by the act. Since 1982, DOD has proposed on average 10-15 major programs for MYP consideration [Ref. 30]. The restrictive mood of Congress has been a major obstacle in expanding the use of multiyear contracting for major programs. This attitude of Congress has contributed to a reluctance of the Services to propose candidates for the MYP in the Program Objective Memorandum (POM). [Ref. 31:p. 4]

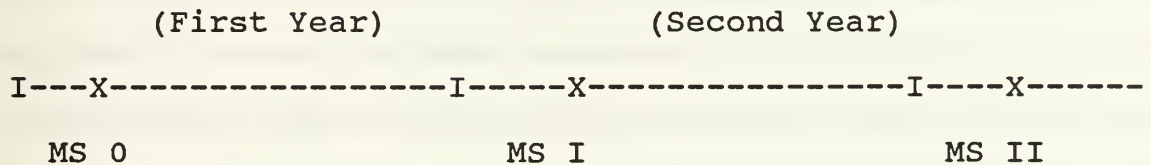
The Packard Commission recommended that the use of the MYP should be expanded and that budgeting for major acquisition programs on a major milestone basis should also be employed. The President and Secretary of Defense Weinberger have also strongly endorsed this concept. Some have noted that many of the budgetary concepts that are

necessary for the successful implementation of a biennial budget are also required for budgeting on a major milestone basis. In a memo to the Assistant Secretary of Defense (Comptroller), R.H. Conn, Assistant Secretary of the Navy (Financial Management) stated that the major milestone funding "concept meshes nicely with biennial budgeting and, if implemented properly, would result in economies and efficiencies" [Ref. 32:p. 1]. The following description of major milestone funding was taken from enclosure 2 to this memo.

Under a major milestone budgeting program, all ACAT 1 procurement programs would be funded to the next major milestone. This would apply to all programs projected to reach milestone I (concept exploration phase), milestone II (demonstration and validation phase) or milestone III (full scale development phase). Once a program had reached milestone III, and the full production decision had been made, the funds for production would be requested on a normal biennial basis. Where it was deemed to be appropriate, multiyear procurement authorization would then be requested.

Under the major milestone budgeting proposal, a budget estimate would be made for every program projected to reach the next major milestone. This estimate would be sufficient to carry that program to the next milestone regardless of whether that milestone was in the biennial period under

consideration. The President's budget proposal would include funds required to complete all phases scheduled to begin in the biennial period. The graph below is provided to illustrate a typical major milestone program request in a biennial budget.



In the case above, the program would be fully funded to milestone II, sufficient to carry the program through the concept exploration and the demonstration and validation phases even though milestone II lies outside the biennial period. Funding to milestone III would be requested in the next Presidential biennial budget submission. After the full production milestone (MS III) had been achieved, the "normal" biennial budgeting process would begin using MYP when appropriate. Congress would review programs only at logical intervals; the major milestones. This process would contribute significantly to program stability.

In order for major milestone budgeting to be successful, Congress must authorize programs and appropriate full funding for the full biennial period. Full funding must be defined as all the funds required to achieve the next milestone. Once authorized and appropriated, the programs should be reviewed by Congress only at the next major

milestone or if cost, schedule, or performance thresholds were exceeded.

It is clear that a biennial budget with a single two-year appropriation could complement both the MYP and funding on a major milestone basis nicely. Congress, however, has not shown much interest in streamlining the acquisition process by limiting its amount of control over DOD. There are those who are concerned that Congress loses control over defense spending through the use of the MYP and would lose even more control if funding on a major milestone basis was employed. The Congress cannot make annual changes without incurring penalties. [Ref. 33:p. 7]

The Defense Department, however, has continued to press Congress to provide DOD with more flexibility in the acquisition process in order to realize economies of scale. Relaxing MYP restrictions, funding programs on a major milestone basis, and a biennial budget with a two-year appropriation, are all means to this goal. For some members of Congress, providing DOD with this increased flexibility would be too high a price to pay for program stability. Some of the obstacles then, that stand in the way of easing the restrictions of the MYP and in implementing funding on a major milestone basis, stand in the way of a Federal biennial budget as well.

D. CONGRESSIONAL INTEREST IN A BIENNIAL BUDGET

Over the years Congress has shown interest in budget reform measures. Not being an altruistic organization, the focus of these measures has been to improve the process from its own perspective. Congress has, in fact, been attempting to define and refine its role in formulating and overseeing the Federal budget for many years.

Since the Budget and Accounting Act of 1921 there have been two major changes to the Federal Budget System; the Budget and Impoundment Act of 1974 and the Balanced Budget and Emergency Deficit Control Act of 1985. The Budget and Impoundment Control Act of 1974 was passed primarily because of the continued failure of Congress to enact timely appropriations and out of frustration with Presidential impoundment of Congressionally approved programs. The Balanced Budget and Emergency Deficit Control Act (Gramm-Rudman) was passed in response to the size of the federal deficit and Congressional inability to control deficit growth. [Ref. 34:pp. 30-31]

Neither one of these reform measures fully achieved their purpose. The Budget and Impoundment Act succeeded in restricting the use of Presidential impoundments but Congress is still unable to pass timely appropriations or to consider the Federal budget in an organized manner. To date whatever (if any) deficit reductions accomplished through the use of Gramm-Rudman has been done by "smoke and

mirrors." This act may ultimately prove to be an embarrassment to Congress as they continue to unsuccessfully manage the budget. Some even argue that Gramm-Rudman is already dead.

Congressional interest in a Federal biennial budget has been a relatively recent development however. Some in Congress view this systematic reform as a possible answer to the problems that the Budget & Impoundment Control Act of 1974 and the Balanced Budget and Emergency Deficit Control Act of 1985 were unable to correct. The commonly cited advantages that a biennial budget offers Congress were identified in Chapter II. The primary ones include schedule pressure relief, providing Congress more time for non-budget activities and oversight, and allowing members of Congress the opportunity to take a broader focus on major policy issues. In addition to these commonly cited advantages, there may be other factors that have motivated Congressional interest in a biennial budget.

It has previously been mentioned that President Reagan was initially largely successful in getting his program through the 97th Congress and to a more limited extent than the 98th Congress. Within Congress there are conservative members (the right wing) that can be counted upon to support conservative leadership and liberal members (the left wing) that are equally consistent in providing opposition.

Budgeting is a political process, not simply a systematic one. With each year's Presidential budget submission to Congress, fundamental policy decisions on the President's part frame the budget battle that ensues in Congress [Ref. 4]. President Reagan's policy is well known. His early success can be attributed to being able to sway public opinion in his favor. By doing so he was able to gain the support of the portion of Congress that comprises the "middle of the road."

In 1981, President Reagan moved swiftly to steamroll his program through Congress. On August 13, 1981, six months after taking office, he signed a monumental budget cutting package into law (H.R. 3982). These cuts were accomplished through the use of reconciliation. Though reconciliation had been made available by the Budget Reform Act of 1974, it had never been used previously. This procedure forces committees to comply with Congressionally approved spending levels. [Ref. 35:p. 1464]

Members' viewpoints on the success of the first use of reconciliation depended on their political perspective. Senator Domenici (R-NM), Chairman of the Senate Budget Committee, was largely responsible for engineering the use of reconciliation to accomplish budget cuts. In a speech on the Senate floor he acknowledged ". . . that the feelings around here (the Senate) about reconciliation are mixed." In the House, Rep. Ted Weiss (D-NY) said "We are voting

today not on a conference report but on a (budget) process that is out of control." [Ref. 35:p. 1465]

Some members of Congress were clearly frustrated with how rapidly President Reagan's sweeping reforms flew through the 97th Congress. Additionally, Congress had spent most of their time on budgeting, and less time on oversight and other legislative matters. Allen Schick, a Congressional Research Service Budget expert commented, "Behind the phalanxes of members voting for reconciliation and the budget resolutions, there is a deep rooted feeling that something is awry in the legislative process. . . ." [Ref. 35:p. 1465]

Both sessions of the 97th Congress finally passed the Defense authorization acts in late December. Almost three months past the Congressional "deadline." In view of the Executive branch's success at pushing through its budget and Congress' inability to adhere to its own timetable, there developed a growing realization within Congress that the budget process required reform.

Some viewed the biennial budget as a possible solution. There is speculation that if a biennial budget process had been in place in the 97th Congress. President Reagan may not have been as successful in pushing his program through Congress. The Panetta proposal, with its provision for Congressional budget oversight in the first session and budget formulation in the second session would have been

particularly useful in this respect. In any case, any budget process that would provide Congress a more systematic and deliberate process would allow members the opportunity for more careful consideration.

E. DOD INTEREST IN A BIENNIAL BUDGET

Within DOD there has also been growing support for a biennial budget but for different reasons than those in the Congress. Interest seems to have developed after Defense Secretary Weinberger expressed his support for a biennial budget. In July 1983 he testified before the Senate Armed Services Committee stating:

. . . we should also face up to the act that a one year budget cycle is no longer adequate to meet the Congress' and the Administration's needs. . . . The time has come for us to consider what has been recommended by a number of Members of the Congress and the Grace Commission: that is, that Congress act to provide the Department with a two-year authorization and a two-year appropriation." [Ref. 36:encl 1:p. 1]

Though there is a consensus that savings can be achieved through program stability, a means for achieving this has not been agreed upon. A significant proportion of DOD's major programs have been reduced below the approved program baseline even before Congress can begin further destabilizing actions. Within DOD, it is hoped that a biennial budget can help achieve a more stable funding horizon with resulting program stability. In its Third Annual report, the Defense Acquisition Improvement Program

identified two fundamental obstacles that hinder improving program stability.

1. Continued reluctance to meet fiscal pressures through vertical cuts rather than across the board procurement stretchouts.
2. Continued fluctuations in budget authority.

The Working Group recommended an evaluation of the feasibility and advisability of pursuing a biennial budget in order to achieve greater program stability [Ref. 31:p. 2].

In April 1984, the Assistant Secretary of Defense (Comptroller) formed a working group under the direction of the Deputy Assistant Secretary for Program/Budget to study the various biennial budget alternatives that had been proposed in Congress and to assess their potential implications on the Defense budget process. An important initial consideration was whether DOD should undertake pilot projects or attempt biennial budgeting on only selected portions of the defense budget. The working group also studied the effects that a biennial budget would have on the PPBS, and how to deal with the requirements for amendments and supplemental legislation that would be dictated by world and economic circumstances. [Ref. 36:p. 1]

A consensus among the services and within DOD about the potential benefits that a biennial budget offers or how to implement a biennial budget was not reached. The following are the positions taken by the Services at the time.

The Department of the Air Force favored the adoption of biennial budgeting. The Air Force cited the major advantages as being a reduction of Service and DOD workloads and more timely appropriations by the Congress. The Air Force also favored a test program to implement the biennial budget in order to develop an accurate assessment. The Air Force opposed the Senator Roth version of the biennial budget because it would change the beginning of the fiscal year from 1 October to 1 January. This would "serve no useful purpose and would destroy the continuity of historical financial data." [Ref. 37:p. 1]

The Department of the Army generally favored a pilot project to evaluate the feasibility of a biennial budget and believed that it should be in a major procurement appropriation or one of the operating accounts. Though the Army favored the Roth version of a biennial budget, they identified three necessary options that were not in any version. These included "(1) an added year of availability for appropriated funds, (2) authorization of programs by the Congress one year in advance of appropriation and (3) greater flexibility (high thresholds) on reprogramming authority." [Ref. 38:p. 1] In the memo, the Army also stressed the importance of Congress authorizing programs for two years without making major adjustments in the second year.

The Navy took a more cautious attitude towards a biennial budget. The Navy's position was that since a Federal budget is a major policy document it is very often overtaken by economic and world considerations before Congress has time to act on it. The instability of budget estimates are a reflection of dynamics of the international, social, economic and domestic situation. In view of this, a biennial budget would extend these projections another year causing an even greater need to revise budget plans during the execution phase of budgeting. In his memo to the Assistant Secretary of Defense (Comptroller), Mr. R.H. Conn stated, ". . . the Department has the least flexibility to change its budget estimates after a budget has been submitted to the Congress and after the Congress has passed the initial appropriations act." [Ref. 39:p. 1] A biennial budget could, therefore, make it more difficult for the Services to meet their operational commitments.

As far as a biennial budget's impact on PPBS and the need for a test program the memo concluded that since the PPBS process is a multi-year one, the preparation of a two-year budget would involve only the expansion of the amount of detail in the budget year to cover two years instead of one. In light of this, efforts to test how to program and budget under a biennial process were not needed. If a pilot project was deemed to be necessary, however, it should be in a procurement account.

Within DOD sporadic discussion concerning a biennial budget continued through 1984 and 1985. Understandably its specific form or content could not be defined until Congress provided direction. The Packard Commission's endorsement of a biennial budget, followed by the President's support, provided the major impetus. DOD soon became the first Federal agency to submit a biennial budget.

F. DON'S FIRST BIENNIAL BUDGET SUBMISSION

The FY 1986 Department of Defense Authorization Act (P.L. 99-145) directed DOD to begin submitting a biennial budget with the FY 1988-1989 submission. Soon after its passage, DOD began converting to a biennial budget process. Within the Navy, it was recognized that a part of the PPBS process is the preparation of a five year program. In view of this, the programmatic process to support a biennial budget was essentially in place. Some mechanical changes to submit a budget were required, but these could be accomplished relatively easily [Ref. 40:p. 1]

Converting to a biennial budget was, however, complicated by the unknown consequences on budgeting that the then recently passed Gramm-Rudman Act would have. To further complicate matters, it was the Authorization committee's mandate to submit a biennial budget. It was not known (and still remains unknown) how the Appropriations committees would respond to the biennial budget submission.

Under these circumstances the Services had to prepare their respective biennial budgets.

The Navy saw the FY 1988-1989 budget submission as an opportunity to improve the budgeting process.

In view of the President's and the Secretary of Defense's positions, the thrust of the authorizing language, and the Packard Commission recommendations, we should take the initiative to structure an approach that makes the most sense from an efficiency and economy point of view . . . we should develop a proposal that will best serve the interests of the Department of Defense. To do otherwise would result in the loss of opportunity that may not be available again for many years, to direct budget process changes that would result in the achievement of more defense programs at lower cost. [Ref. 41:pp. 1-2]

In light of the unique opportunity to reform the budgeting process and the various uncertainties, the Navy made several assumptions concerning the nature of the biennial budget. Many of these assumptions were seen as being critical for biennial budgeting to succeed. These assumptions were as follows:

- Each appropriation will cover the requirements for two years vice two one year appropriations.

All funds for fiscal years 1988/89 would be legally available on 1 October 1987 for the two-year period ending 30 September 1989. The alternative would be two one-year appropriations such that FY 1988 funds would be legally available from 1 October 1987 through 30 September 1988 and FY 1989 funds would be legally available from 1 October 1988 through 30 September 1989 . . . all funds must be available at the beginning of the fiscal period if we are to have maximum flexibility and achieve the desired economies and efficiencies under a biennial budgeting process.

- Return to continuing appropriations vice multi-year appropriations.

Procurement, R&D, and Military Construction appropriations would be available until expended, rather than

lapsing after 2, 3, or 5 years as is now the case. Continuing appropriations provide more flexibility by allowing the use of unobligated balances for reprogramming to meet current year requirements.

- All legislative authorities will cover at least the two year period.

Certain legislative authorities are now made available on an annual basis (i.e., some bonuses and premium pays). The assumption is that they would be authorized on a two year basis, or made into permanent law.

- Eliminate restrictive language in appropriations.

We now have appropriation language that sets dollar floors and ceilings for certain activities, and that appropriates by line item for some accounts. Such limitations would have a more detrimental impact on execution under a biennial budget.

- Eliminate reprogramming thresholds in certain accounts and provide significant increases in the remainder.

We (DON) would totally eliminate dollar thresholds in procurement accounts, and increase the thresholds in the other accounts. Increases in quantities in major procurement programs would still require reprogramming action approved by the Congressional oversight committees. It is critical that reprogramming thresholds be eased under biennial budgeting.

- Provide unlimited transfer authority.

Since a biennial budget will require more adjustments between appropriations than an annual budget, and since any pre-approved limit to transfer authority is arbitrary, there is really no valid rationale to pre-establish some amount. It is only necessary to provide the authority and the mechanism rather than establishing in law how much it should be.

- Consider supplemental requests on a more timely basis.

Biennial budgeting may require more and larger supplementals. Late passage of such supplementals would be even more disruptive than under an annual cycle.

- Provide for automatic or supplemental appropriations to cover increases in inflation.

Given the potentially large variation in costs relating to inflation under a biennial budget, it is necessary to establish some procedure to adjust for changes in inflation estimates. A preferred way would be to produce automatic increases (or decreases) based on some accepted index. At the least, we would desire a routine supplemental request.

- Continue the same Congressional process envisioned under the Budget Impoundment and Control Act (of 1974).

The Congress spends only one year--not two--passing appropriations. [Ref. 42:Encl 2]

In another memo, the Assistant Secretary proposed several structural changes to improve management and to streamline the budget process. These changes included structuring larger account aggregates, combining like items into single account aggregates, eliminating historical anachronisms and making other changes to conform to the DOD's current management structure and philosophy. [Ref. 41:p. 1]

The Assistant Secretary of the Navy went on to say:

The Department is facing an almost unique opportunity to modify the budget structure and process in a fashion that will allow us to escape the twin yokes of bureaucratic inertia and Congressional micro-management. The Secretary of Defense, the President, and many members of Congress, all desire to achieve reforms. The Packard Commission has provided the conceptual underpinnings and the necessary bipartisan support for reform. It is incumbent upon us, the technical experts in the budgetary field, to develop and build the framework that will make these reforms successful. [Ref. 32:p. 1]

Within DOD, the decision was made to make separate and distinct budget estimates for each of the biennial budget years (FY 1988 and FY 1989). Unfortunately, the first

biennial budget submission guidance did not include any of the major assumptions or recommendations that were made by the Navy. The estimates for the biennial budget were justified as independent appropriations. What DOD essentially did was to take two annual budgets and then submit them as a biennial budget package. "Only in the event that there should be subsequent congressional agreement on rolling the FY 1988 and FY 1989 defense funding requirements together would we be in a position to consider combining two fiscal years in any manner. [Ref. 43:p. 2]

It is extremely unlikely that Congress will appropriate both fiscal years in the first session [Ref. 44]. As a result, most of the experts who were interviewed within the Navy's Budget Office, do not believe that the current biennial budget submission will achieve any of the desired improvements in program stability. In addition to this, from a budgeting perspective, the FY 1988-1989 budget submission may cause new budgeting problems.

The FY 1989 estimates that were submitted to Congress do contain the increased uncertainty associated with estimating budget requirements so far into the future. DOD did not make any proposals to increase flexibility to work with this increased uncertainty. Without the necessary flexibility to make major changes to the FY 1989 budget, the Navy will have to propose substantial changes to Congress in the form of an amendment, supplemental, or reprogramming/transfers. The

net effect of all this will probably be another FY 1989 budget submission. This will require full justification before a Congressional committee and will probably take as much time as if DOD were still operating under an annual budget. [Ref. 45:p. 2]

Officially the Navy Budget Office should be concentrating on developing the FY 1990-1991 biennial budget. Its specific form and substance cannot be clearly identified, however, until Congress acts on the first biennial budget submission. Complicating this task even more is the unresolved procedure that will be used to update the FY 1989 requirements currently on the Hill. As it now stands "the ball is in Congress' court." DOD must adjust its budgeting process in response to Congress' action or inaction.

F. SUMMARY

The purpose of this chapter has been to present the relevant issues concerning the biennial budget. It should be clear that the essential elements that would comprise a "successful" two-year budget vary depending upon one's perspective. It is not sufficient to simply favor or oppose a biennial budget without carefully considering its specific provisions. There has been movement in the direction of a biennial budget. Within DOD this interest has been motivated by an interest in streamlining the acquisition process and providing a more stable funding horizon. There

are some within Congress who agree with this. Other Congressmen simply view a biennial budget as a systematic reform to help control a budget process that seems to be out of control.

The recent DOD biennial submission has, however, caused some changes in how the Navy Budget Office operates. The POM development process and FYDP update process are the most noteworthy. The next chapter discusses the impact of some of these effects.

IV. THE EFFECTS OF THE MOVE

A. INTRODUCTION

Even though the ultimate form that a Federal biennial budget may take on has not yet been determined, the FY 1988-1989 submission by DON has, nevertheless, caused some changes within the Navy Budget Office. The purpose of this chapter is to study the effect that these changes have had at the Navy Budget Office, the Major Claimant, and the Component Commander level. Most of these changes have affected the Planning, Programming and Budgeting System (PPBS) and the process to update the Five Year Defense Plan (FYDP). Since it is not yet certain how Congress will respond to the current submission in terms of authorization and appropriation structure, the biennial budget has primarily had an impact on the planning and programming phases of PPBS. The ultimate effect on the budgeting process will be determined after Congress acts on the current submission.

It is important to understand what the PPBS is before a study of the changes that have occurred to the process is presented. This will be done in the first section of the chapter. This will be followed by a discussion of the changes that have occurred to the PPBS as a result of the biennial budget, how DON developed the FY 1988 POM and how

it is approaching the FY 1990-1991 POM. This discussion will include changes in updating the FYDP. The chapter concludes with the second year review procedures that are being considered in an attempt to anticipate Congressional action on the biennial budget.

B. THE PPBS PROCESS

The origin of the PPBS process can be traced to 1961. It was developed by Secretary of Defense Robert S. McNamara to facilitate the management of the Department of Defense. The primary purpose was to tie dollars to defense program objectives by developing a systematic process by which resources can be properly allocated to meet unlimited force requirements. According to Charles Nemfakos,

. . . the purpose of PPBS was to make it possible for the Secretary of Defense to manage DOD by means of a rational planning and budgeting process. Its development was an ambitious undertaking, intended to facilitate budgeting in terms of military forces and weapons systems instead of the resource categories of military personnel, procurement, operation, and maintenance, research, and construction. In addition, costs were to be determined for the lifetime of a system, not just for the budget year. Finally, such data were to be used in analyzing quantitatively the cost effectiveness and benefits of alternative programs or systems. [Ref. 34:p. 27]

The PPBS can be summarized in the following manner. Based on an anticipated threat, a broad strategy to meet the threat is developed. Requirements to support the strategy are then estimated and programs are developed to support the strategy. Finally the specific costs of the approved programs are then budgeted. [Ref. 46:p. A-9] The process

is an iterative one involving the Services, JCS, OSD, and OMB. A simplified presentation of the purpose and relationship of each of the three phases of PPBS, planning, programming and budgeting, will now be described.

In the planning phase, long range threats to the security of the United States are identified and the strategy and forces required to counter the threat are projected. These projections are fiscally unconstrained and are tied to national policy objectives. The planning cycle begins with the issuance of the Joint Strategic Planning Document (JSPD) by the JCS. This document provides the advice of the JCS to the President and the Secretary of Defense on the strategy and the force requirements necessary to meet the existing and projected threat [Ref. 46:p. A-10]. The Defense Resources Board (DRB) reviews the force level requirements identified by the JSPD and issues the Defense Guidance (DG). The DG marks the end of the planning phase and provides the Services with the guidance necessary to develop the Program Objective Memorandum (POM).

The issuance of the DG marks the beginning of the programming phase of PPBS. The programming phase takes the long range, fiscally unconstrained, strategic plan identified in the planning phase and translates it into fiscally defined, achievable packages. It also narrows the scope to five years. [Ref. 34:p. 28]

The critical document developed by each of the Services during the programming phase is the Program Objectives Memorandum (POM). The POM's are prepared by each of the Services and are done in response to the DG provided by the Secretary of Defense and the President. The POM expresses total program requirements in terms of force structure, manpower, materials and costs needed to support the Five Year Defense Plan (FYDP). The POM is the primary means of requesting changes to the FYDP base which has been previously approved by the Secretary of Defense. [Ref. 46:p. A-11] During the POM development process, Major Claimants and Component Commanders must project and estimate their resource requirements for the five year period that the given POM covers.

Approximately thirty days after the Services publish their POM's, the JCS issues the Joint Program Assessment Memorandum (JPAM). The JPAM is the JCS's assessment on the adequacy of the Services' respective POM inputs. The Secretary of Defense considers the JPAM analysis while analyzing the individual Services' POM inputs. The Programming phase ends with the issuance of the Program Decision Memorandum (PDM) by the SECDEF. The PDM outlines the SECDEF decisions in terms of force levels, system acquisition, and levels of support. [Ref. 46:p. A-13]

The issuance of the PDM marks the beginning of the budgeting phase of the PPBS process. In this phase, the

focus of PPBS shifts from mission requirements to dollars. Emphasis is placed on the first year of the FYDP and on the executability of programs, the justification requirements, and on the cost estimates of the programs. [Ref. 34:p. 28]

In the past, the annual budget submission has been made to the SECDEF twelve months prior to the fiscal year under consideration. NAVCOMPT issues the call for the submission of budget estimates in June of the year preceding the budget under consideration (15 months prior). Budget estimates are submitted by the Services to OSD in October. After analysis of the estimates, SECDEF holds a series of joint budget hearings with OMB. Following these hearings, SECDEF issues Program Budget Decisions (PBD) in December. This forms the budget estimate that OSD submits to OMB for incorporation in the President's annual budget request that is submitted to Congress in January of each year. [Ref. 46:p. A-14]

The Five Year Defense Plan (FYDP) is the means used to control the PPBS system. It is a summary of programs approved by the Secretary of Defense. Under an annual budget cycle, the FYDP has been traditionally updated three times during the annual period. This has been done in October to reflect the DON budget submission to OSD, in January to reflect the President's budget submission, and in May to reflect the final POM development. [Ref. 47:p. 1]

In the past, as program managers have provided their input to the updating of the FYDP, they have directed their attention to estimating as accurately as possible the resource requirements for the first year of the POM. These estimates are termed "budget quality" figures [Ref. 30]. Since the outyear estimates must be revised in succeeding POM inputs in response to the changing threat and Congressional action, the accuracy of the succeeding years' estimates were not as critical nor as accurate as the first year's.

From its implementation in 1961 to the present, the fundamental PPBS process has not changed. Each succeeding Administration has made some revisions to the system to tailor it to their own, unique management style. Under President Reagan, the shift has been towards an emphasis on greater decentralization and participative management. The Secretary of Defense establishes the fiscal guidance but he delegates much more responsibility and authority to the Services. POM guidance is less detailed and policy statements and priorities are broader and emphasize improved planning [Ref. 34:pp. 29-30]. The implementation of the biennial budget has, however, caused some systematic changes to the PPBS process within NAVCOMPT and at the major claimant level. These effects will be presented in the following section.

C. CHANGES TO THE PPBS PROCESS

A complete assessment of the changes that the PPBS process will require, cannot be made until it is known how the Congress and OMB will respond to the biennial budget submission. Most changes that have already been made are in the planning and the programming phases. There is a general consensus within NAVCOMPT, however, that since PPBS was designed with flexibility in mind and that it has effectively operated under various management styles for many years, it can readily be amended to accommodate a biennial budget.

In a letter to the Assistant Secretary of Defense (Comptroller), the Assistant Secretary of the Navy (Financial Management/Comptroller of the Navy) identified the following general impacts on the PPBS that should be considered if a biennial budget were implemented.

- How to divide the additional year among the planning, programming and budgeting phases. More time should probably be allocated to the planning phase since adding more time to programming and budgeting would have to be weighed against the increased length of time for which estimates are made. Increasing the length of time for which estimates are made increases the uncertainty of the accuracy of the estimates.
- The degree of detail in the Programming phase must be reconsidered. A more detailed estimate is of less value when it covers a longer period of time.
- Consideration must be given to fact of life events and management initiatives that would cause adjustments to the budget process. This would occur in both the formulation and the execution phases. [Ref. 38:pp. 1-2]

These general considerations identified by the Assistant Secretary of the Navy, formed the basis for the initial revisions made to the PPBS process. Most of the additional year provided by the biennial budget submission has been devoted to the planning phase (program appraisal). In the programming phase, the POM development schedule has been amended to accommodate the multiyear process. In the budgeting phase, there have been some relatively minor changes within NAVCOMPT. None of the historical budgeting rules have changed, however, nor have there been any significant budgeting process changes external to NAVCOMPT [Ref. 48].

The first change to the PPBS process occurred as DON was preparing its FY-88 POM. Each year, in September or October, the Director, General Planning and Programming (OP-90), issues POM preparation guidance for the next POM submission. This letter contains the schedule, the task areas and sponsor assignments along with their responsibilities for the preparation of the succeeding POM input.

When the POM guidance for POM 88 was issued in September 1985, it was not clear if a two year budget would be submitted for FY 1988-1989 or if the "normal," annual budget, would be required. Based on the Congressional language in the Authorization Committee report, a potential for a biennial budget submission beginning with the

President's January 1987 (FY-1988) budget existed [Ref. 47:p. 1]

In light of this, preparation for POM 88 was done with an awareness that the data for both FY 1988 and 1989 may be submitted to NAVCOMPT for budget review [Ref. 47:p. 1]. At the time, however, even though this "awareness" existed, a biennial submission was not considered to be a likely prospect. In addition to this, even if the prospects for a biennial budget were more likely, there was a limited amount of time available. The POM preparation schedule was still under the annual submission cycle. As a result of these factors, as the Major Claimants prepared for POM-88, their focus was on FY 88 not FY 89. Designed into the POM-90 schedule, was an opportunity to revise the FY-89 requirements. Ultimately, this update of FY-89 was not necessary. This will be discussed in greater depth in a latter portion of this chapter.

In retrospect, of course, a two year budget was submitted for FY 1988-1989. As a result of the biennial budget submission, the Department of the Navy has formally changed the (POM) development cycle from a one year to a two year POM cycle. There will be no POM-89 and POM-90 will be due in April 1988 [Ref. 49]. The primary impact on the Major Claimant and the Component Commander of changing the POM cycle to a two year cycle, is that it has shifted the

focus on the first two years of the POM, requiring budget quality estimates for both years [Ref. 30].

The first year of the POM preparation cycle (called the off-year) is now devoted to the planning phase of PPBS. This provides more opportunity for warfare appraisal. Under the annual cycle warfare appraisals were compressed into three months. This caused the planning and programming phases focus to be on the first year of the POM. With the two year cycle, the warfare appraisal has been spread over six months in the offyear. This provides more time for analysis and the development of a coherent program for the entire POM period under consideration (FY 1990-1994).

Figures 9 and 10 illustrate the changes to the PPBS time schedule. They were provided by OP-090. Figure 9 provides a comparative look at the two different POM preparation cycles. Figure 10 presents how the additional time has been allocated to the planning, programming and budget phases of PPBS.

Figure 9 also reflects another important revision to the PPBS process; the frequency of updating the FYDP. Recall that the FYDP is the PPBS' controlling mechanism. It can be expected then, that any changes to the PPBS schedule would most likely cause changes to the FYDP updating process. This has occurred as follows. Under the new system, the FYDP will be updated in October 1986 to reflect the DON budget submission to OSD and in January 1987 to reflect the

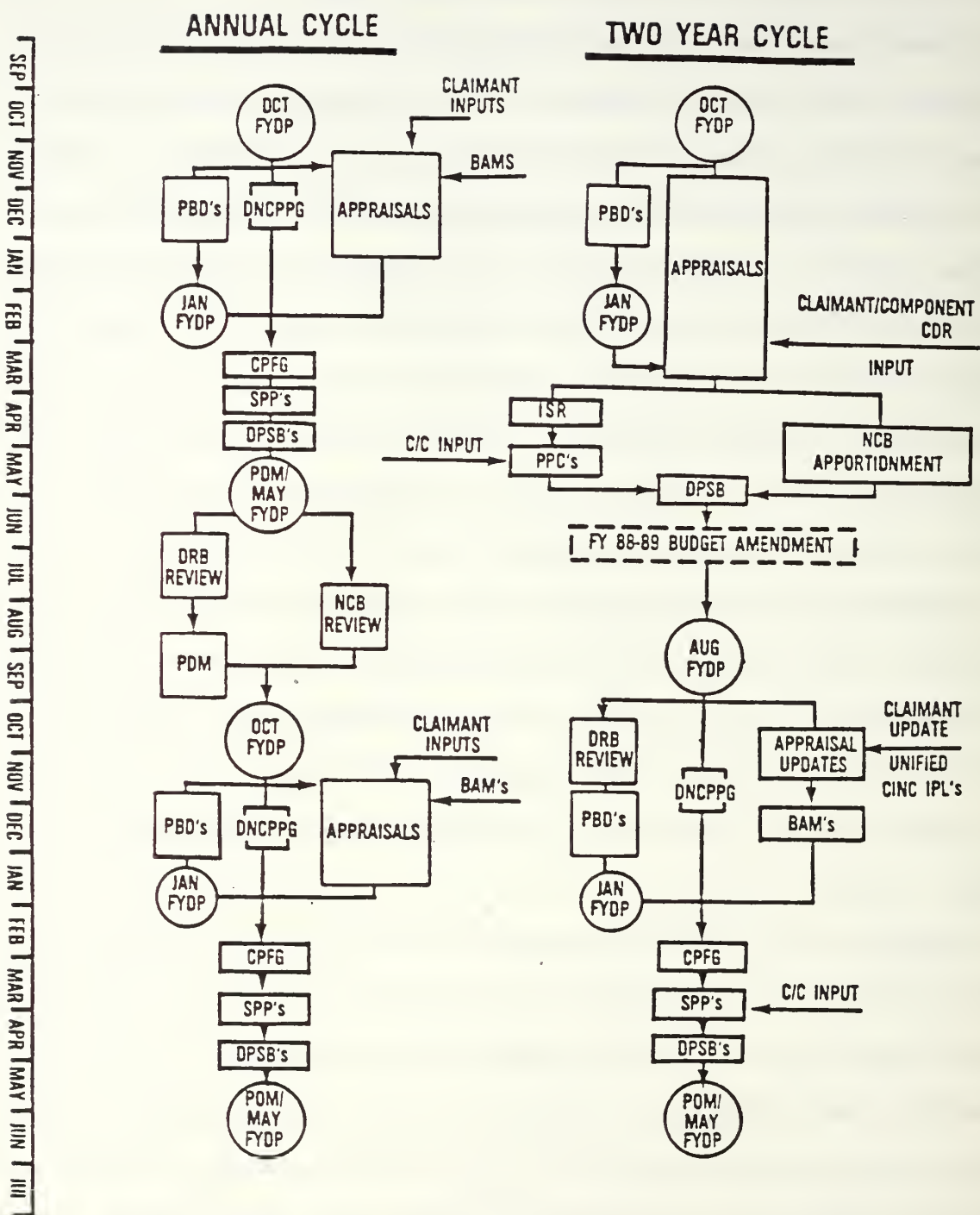


Figure 9. Comparative Look at the Annual and the Biennial Budget POM Preparation Cycle

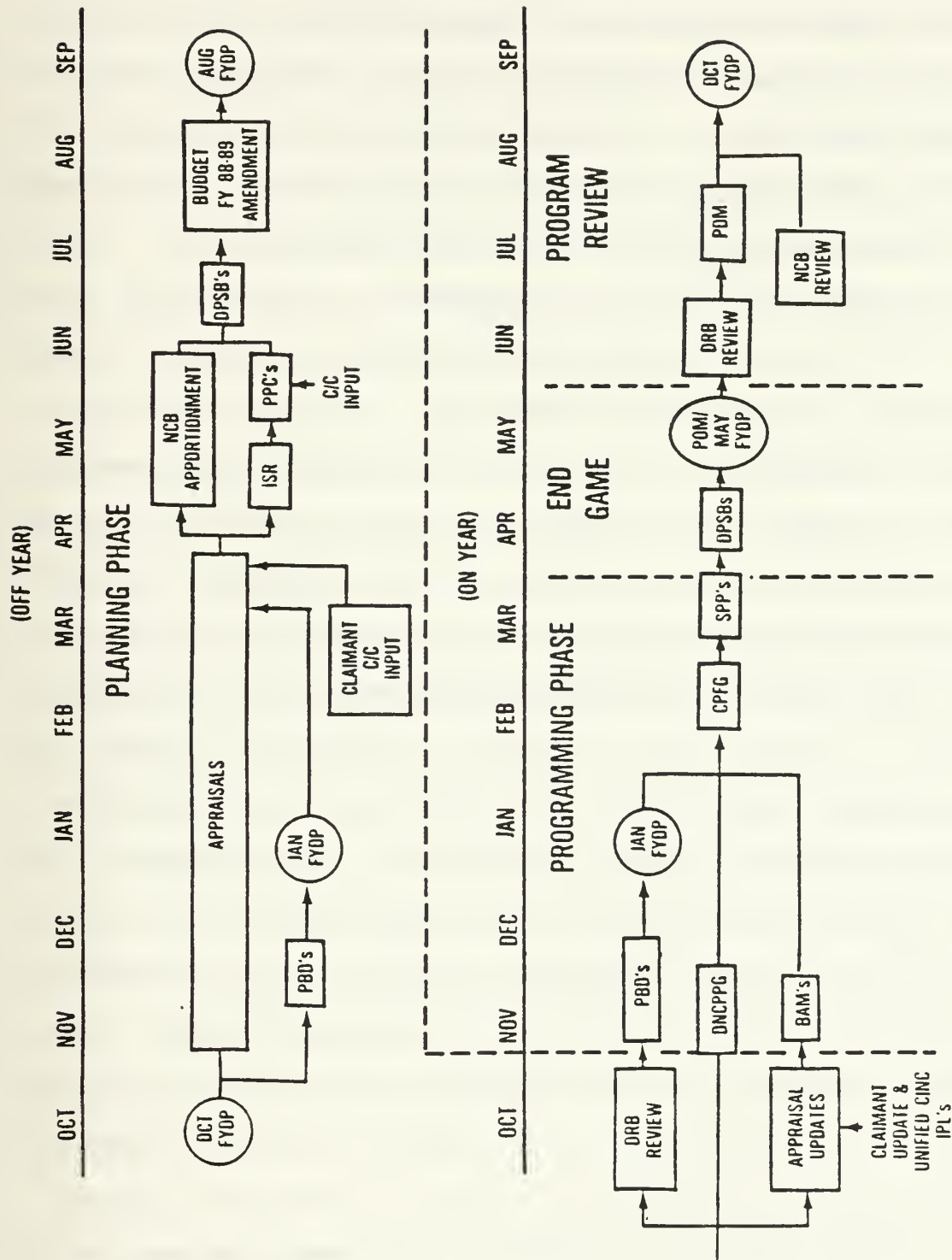


Figure 10. Allocation of the Planning, Programming and Budgeting Phases of PPBS in the Biennial POM Preparation Cycle

President's FY 88-89 budget submission to Congress. A third FYDP update is tentatively planned in August 1987 after the FY 88-89 budget amendment has been completed. The fourth FYDP update will be performed in January 1988 after OSD has completed their review of the FY 1988-1989 budget amendment. The fifth FYDP update will occur in May 1988 following the final submission of POM 1990-1994 [Ref. 50:p. 12].

There have not been any fundamental revisions to the overall FYDP process as a result of the biennial budget submission. The changes that have occurred have been primarily superficial revisions to accommodate the new time schedule without fundamentally changing the PPBS process. Future revisions will be made as deemed necessary by OSD. For example it is currently anticipated that the August 1987 update may slide to the October/November 1987 timeframe [Ref. 49]. Though this is likely a significant change to those involved in updating the FYDP, it is not likely to have any fundamental impact on the overall PPBS process.

The POM-90 preparation is being done with an awareness that a FY 89 program adjustment may be needed. Whatever form it takes, there will be two opportunities for Navy Component Commanders, Major Claimants, and Resource Sponsors to update their programming requirements during the current cycle.

The first occurred in February 1987 and consisted of a limited number of macro-level concerns. These inputs were

to be used by the Resource Sponsors in developing Planned Program Changes (PPC's) for proposed adjustments for FY-89 and requirements for FY 90-92. The process used was to have the Major Claimants and the Component Commanders identify their top five programmatic concerns. These prioritized issues were then submitted to the Resource Sponsors for review. Any emerging or previously unidentified issues were to be incorporated into PPB's by the Resource Sponsors in order to adjust the FY-89 requirements.

As it turned out, there were no emerging programming requirements identified in the review conducted by the Resource Sponsors. All of the prioritized issues had been previously identified and incorporated in the preceding POM-88 input. As a consequence no PPC's were prepared and no adjustments to the FY-89 programming requirements were made [Ref. 49].

The second opportunity to adjust the programming requirements will be a detailed input for POM 90 (FY 1990-1994). This will be submitted in October 1987. In this case, the number of major issues Major Claimants may submit to the Resource Sponsors is not limited. The focus, however, should again be on the top five major issues. [Ref. 50:p. 12]

Though a schedule to review the programming requirements has been established and is being adhered to, it is more difficult to determine what process will be used to update

the budget that is already on Capitol Hill. Theoretically, if Congress appropriates both FY 1988 & 1989, and if there were no emerging requirements, an update would not be necessary. This is unlikely in both respects. An update will almost certainly be required and its form will be determined in response to Congressional action. An adjustment to the FY-89 submission could range from a FY-89 budget amendment or a complete, new FY 89 budget submission. NAVCOMPT remains in a reactive mode to Congressional action or inaction.

As a result of this uncertainty, the second year budget review procedures for the current biennial budget submission have not been finalized. It is likely that any emerging requirements will be submitted as an amendment to the FY-89 budget request. In anticipation of this, NAVCOMPT is currently planning an apportionment review in the summer of 1987. This review will focus on FY 88 and 89 budget requirements [Ref. 48].

Some indication of Congressional response to the DOD biennial budget submission has already been provided. To date, the House Armed Services Committee (HASC) has authorized programs for FY 88. They have also conditionally authorized approximately 20% of the R&D request made by DON for FY 89 and approximately 10% of the major procurement request. The condition is that these selected FY 89 programs must be appropriated this year by the

Appropriations Committee. If they are not, the authorization is rescinded. The HASC bill also included language saying that this was a first step towards a biennial budget with possibly a more substantial one to be made in the following year [Ref. 48].

The Senate Armed Services Committee (SASC) has not yet reported its authorization bill. If it authorizes programs for only FY 88 and does not authorize any programs for FY 89, the prospects for a biennial budget for FY 88-89 appear to be dead. If it takes some action similar to the HASC, a biennial budget in a partial form may be passed. In any case, in light of the HASC action, a full, two year appropriation is extremely doubtful.

D. SUMMARY

It had been generally recognized that while DOD would have the most influence on any changes to the planning and programming phases that a biennial submission would necessitate, any changes to the budgeting phases would be in response to the actions of Congress and OMB. This has proven to be the case as can be seen by the changes to the PPBS process that have been made to date. The ultimate impact, however, that the biennial budget will have on PPBS or on budgeting in general, will not be known until Congress takes final action on the biennial budget issue. PPBS was implemented with flexibility in mind. It has responded to

changes in the past and there is no reason to believe that it cannot respond to a biennial budget.

The purpose of this chapter has been to identify the major changes that have occurred within the Navy Budget Office as a result of the FY 1988-1989 biennial budget submission. It can be seen that most of these changes have been in the planning and programming phases of PPBS. The overall, net long term effect has yet to be determined.

In the next chapter, conclusions regarding a biennial budget will be drawn.

V. CONCLUSIONS

An increasing percentage of people are becoming more and more frustrated with the current budget process. Support for reforming the process is coming from a variety of segments that form our political population; segments that generally have difficulty agreeing on controversial issues. Members of Congress, the Administration, and others involved in the budget process are all calling for budget formulation reform.

There is no doubt that the current process is a cumbersome one. With few exceptions, each year, members of Congress are caught in an eleventh hour crisis. They find themselves not prioritizing national issues by developing a budget but rather attempting to pass a budget to save the government from bankruptcy. Most members end up voting on a budget package whose contents they are not familiar with. The time consuming process requires a disproportionate share of each member's time and is often done at the expense of other important issues.

Those involved in formulating the budget within the Executive Branch (OMB and the agencies) spend months developing their respective inputs to the Federal budget. Months are then spent defending their requests before at least six different Congressional committees. After all

this, indiscriminate cuts are then often made by committees, in action on the floor or in meeting last minute deadlines, sometimes well after the FY has begun. Funding level uncertainty results causing program instability with resulting losses in efficiency and economies of scale.

Some see the biennial budget as the answer to the problem. A biennial budget would, if nothing else, provide more time to review a budget and could reduce the number of continuing resolutions. Depending upon its specific form and definition, however, it could offer much more to the Administration, the Congress, and the agency. The perception that more time will lead to a more thoughtful and a more deliberative process, is what seems to be behind the current support for a multiyear budget.

There is a tendency to use the term "biennial budget" loosely. Depending upon one's perspective, however, its definition takes on a different meaning. Within Congress, for example, some view a biennial budget as a means to achieve program stability and to realize greater efficiency, while others view it as a systematic change allowing greater opportunity for Congressional oversight.

A biennial budget could be of great benefit to the Department of Defense particularly if it were used as a vehicle to complement major milestone funding and the MYP. Recall that while developing this FY 1988-1989 budget submission, DON made key assumptions that were considered

critical in order for a biennial budget to be successful (Chapter III). As Congress considers the DOD submission, however, none of these assumptions are being considered. For example, one of the key requirements was that Congress needed to authorize and appropriate both fiscal years under consideration. That this is most likely not going to be the case is evidenced by completed HASC action. At best, only a relatively small portion of the overall budget has been authorized and may be appropriated. If this partial measure is appropriated it could complicate the process even further from a budget formulation and execution perspective.

It was the Authorizing Committees' bill that required a biennial budget submission from DOD. The Appropriations Committees did not support it. The Appropriations Committees, in fact, are opposed to biennial appropriations seemingly because it would cause them to lose power and influence. Under the current system, they can "hold the attention of the Executive Branch" each year as opposed to every other year. Without public pressure, it is unlikely that they will change this view.

In addition, any budget reform measure that Congress enacts, will change the process to correct the problems as seen from their perspective. It is doubtful that they will amend the process to benefit DOD. While conducting research for this thesis, the author asked a Congressman's aide if Congress was likely to amend the process to adjust for the

increased flexibility that a biennial budget would require from a budget administrator's perspective. He replied, "If an EPA official came up here and said 'we have problems with executing and estimating a two year budget'; our response would be 'that is not our concern'."

Simply changing the budget cycle from a one year to a two year cycle will not cause budget formulation reform. It would have no more effect on the efficiency of the process than did the Budget Reform Act of 1974. To be an effective instrument, the Congress, the Executive Branch and the agency must reach a consensus on the key changes that need to be incorporated into the entire process and would have to accompany a shift to a multiyear cycle. Changes, for example, are needed to account for the requirement for an increase in flexibility in executing the budget.

In addition to this, a biennial budget would serve no useful purpose if it were simply two one year budgets under a different name. This is exactly what OSD did in making its FY 1988-1989 submission. Presumably, the reasons for this form rather than a single biennial package, was the uncertainty of Congress' response to the first biennial budget consideration. Two one year budgets are more easily dissected than a single package and if Congress did not authorize and appropriate both years, the second year could more readily be resubmitted.

By taking this approach, however, DOD lost an opportunity to help restructure the budget process from DOD's perspective. By submitting two one year packages, DOD made it convenient for Congress to single out each year of the package and consider it separately. This precludes the achievement of the major advantage that a multiyear budget would provide; program funding level stability. Budget estimates for FY 1989 contain significant uncertainty because they were developed in 1986, without provisions or proposals to provide for increased flexibility. As a consequence, the Administration will likely find it more difficult to adjust the FY 1989 program content or its topline.

The FY 1988-1989 DOD biennial budget submission seems to minimize the advantages and maximize the disadvantages of what a biennial budget offers. It has caused some changes to the way the PPBS process operates and other internal changes within NAVCOMPT but it has not caused any noticeable changes to the way business is conducted on Capitol Hill.

Until there is sufficient public pressure to bring about change, it is doubtful that Congress will make significant changes to the way funds are currently authorized and appropriated. A biennial budget without most of the characteristics identified in Chapter III would probably be an unsuccessful reform measure. As a result, the effectiveness of a biennial budget without these

characteristics as a means to achieve the cited advantages it offers is quite doubtful.

The biennial budget, however it will ultimately be defined, is gaining influential support. Over the next few years, it is likely to continue to evolve. This study was limited by the current nature of the subject. A suggested topic for further research is to continue tracking the biennial budget and the effect that it causes on budget formulation procedures within NAVCOMPT.

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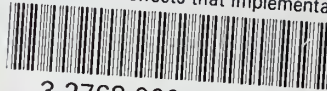
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